N

Mitel Corporation

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# 5.9 BILLION

E

98 Annual Report

S

# people talk every day

but only a fraction of them
have access to any kind of telecommunications device,
including the telephone...

so far!

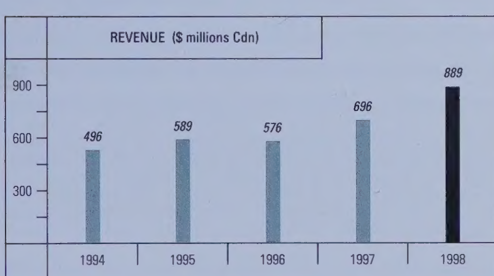
Mitel Corporation is a designer, manufacturer and marketer of semiconductors, sub-systems and systems for the communications industries. The Company's products include integrated circuits for wired and wireless applications, applications-specific integrated circuits (ASICs), optoelectronic devices and custom silicon wafers; voice communications systems, networked voice and data systems, Computer Telephony Integration (CTI) systems and applications; telephony-enabled servers, public switching systems, and alternate network and remote access products. Mitel's leadership strategy is centered on developing strong microelectronics technology and advancing people-to-people communications in an open, distributed and standards-based environment.

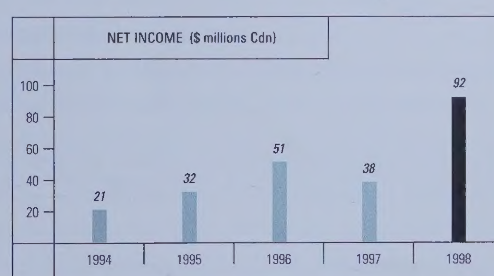
# financial highlights

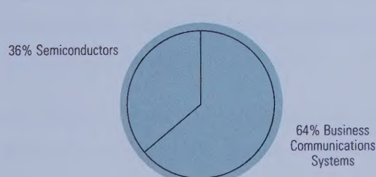
| *($ millions Cdn, except earnings per share amounts)* | *1998* | *1997* | *1996* | *1995* | *1994* |
|---|---|---|---|---|---|
| **EARNINGS** | | | | | |
| Revenue | **$ 889** | $ 696 | $ 576 | $ 589 | $ 496 |
| Net income | **92** | 38 | 51 | 32 | 21 |
| Earnings per share | **.82** | .32 | .45 | .27 | .16 |
| Research & development expenses | **85** | 57 | 43 | 42 | 34 |
| **CASH FLOW** | | | | | |
| Cash flow from operations before working capital changes | **$ 126** | $ 73 | $ 71 | $ 47 | $ 41 |
| Capital expenditures | **59** | 74 | 35 | 17 | 16 |
| **BALANCE SHEET** | | | | | |
| Cash & short-term investments | **$ 152** | $ 143 | $ 137 | $ 142 | $ 101 |
| Working capital | **246** | 206 | 210 | 208 | 174 |
| Total assets | **1,238** | 585 | 517 | 441 | 367 |
| Total long-term debt | **420** | 58 | 51 | 44 | 32 |
| Shareholders' equity | **436** | 340 | 303 | 263 | 232 |
| Number of shares outstanding *(millions)* | **108.4** | 107.4 | 106.1 | 105.8 | 105.5 |

*Listings*

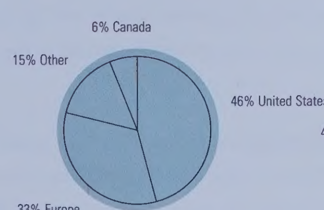
Toronto Stock Exchange    Montreal Exchange    New York Stock Exchange    The Stock Exchange, London



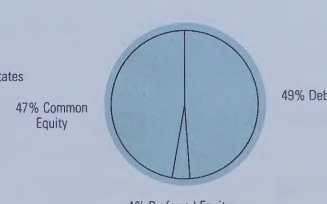




REVENUE BY PRODUCT GROUP




REVENUE BASED ON CUSTOMERS' GEOGRAPHICAL LOCATION




CAPITALIZATION

## positioned for growth

To our Shareholders –

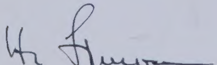
This as been an excellent year for Mitel; substantial growth internally and through acquisitions. I am pleased to report a record year in Fiscal 1998, Mitel's 25th Anniversary. Sales have increased by 28 percent to $888.5 million and earnings per share from $0.32 last year to $0.82 this year.

As this Annual Report reveals, Mitel's product portfolio encompasses all points along the communications value chain — from the semiconductors and components which lend special intelligence to the offerings of original equipment manufacturers, through the business subsystems and systems sold by value-added resellers, to full systems integration and service delivered to end users.

Mitel's growth along the value chain is driven by a strategy based on a healthy balance between internal organic development and the aggressive acquisition of key technologies that round out our capacity to serve the growing demands of our customer base. The acquisitions we have made in the last fifteen months supplement Mitel's technologies and product portfolio in important ways while utilizing Mitel's traditional sales channels.

The newly acquired semiconductor activities in Great Britain have more than doubled the size of the Semiconductor business which is expected to continue its growth at an accelerated pace. The acquisitions in Mitel's Business Communications Systems operating unit provide important product additions to the traditional business telephone activities and will ensure above market growth. Mitel concluded Fiscal 1998 at an annual run rate well in excess of a billion dollars in sales. We will continue our strategy of balanced growth: acquisitions and internal growth through increased investments in product development, with particular emphasis on the high growth areas of Mitel's activities. This strategy will capitalize on the larger platforms we have been able to build in both the Semiconductor and Business Communications Systems business units. Looking to the future, Mitel is well positioned for profitable growth in the ever-changing world of communications and semiconductor applications.

In closing, I would like to thank the board members for their strategic counsel. I am also grateful to our customers, suppliers, business associates and shareholders for their continued support. Finally, my appreciation goes to our employees for their unfailing dedication and spirit which are so critical to the continued strength of Mitel.



Dr. Henry Simon, CHAIRMAN OF THE BOARD

## the year in review

From the President's Perspective –

It was a sterling year. Revenue and earnings at Mitel reached record highs in Fiscal 1998 with strong performance in each of our core businesses and the benefit of key acquisitions that positions us well for the future. Total company revenue grew by 28 percent to $888.5 million compared to $695.5 million in Fiscal 1997. Considering revenue by business group, the increase in Business Communications Systems (BCS) revenue was 20 percent, while Semiconductor achieved an increase in revenue of 46 percent.

For shareholders, welcome news is that the Company reported net income of $91.9 million or $0.82 per share this year, up $0.50 per share from the Fiscal 1997 performance. The reasons for the improvement were primarily twofold — higher sales volumes and good control over expenses as a result of increased efficiencies both in internal operations and the sales channels.

**BUILDING OPPORTUNITY THROUGH ACQUISITIONS** Some of the most notable news at Mitel this year related to the increased operational capacity and earnings potential made possible by key acquisitions. In August of 1997, our product portfolio was broadened with the addition of the assets and remote-access business of Gandalf Technologies Inc., which we acquired for $21.6 million. The Gandalf business will help us take advantage of the explosive remote-access market as increasing numbers of corporate teleworkers turn to remote systems which offer seamless voice-and-data connectivity with their respective corporations.

Major industry interest followed our acquisition of the shares of four affiliated enterprises grouped under the collective name GEC-Plessey Semiconductors ("GPS") from The General Electric Company plc. Headquartered in the United Kingdom, GPS is an international semiconductor company focused on the communications industry. With GPS staff, facilities and legacy customers onboard, Mitel now ranks as one of the world's 10 leading manufacturers of integrated circuits for networking and telecommunication uses. The world-class team of GPS design engineers also gives Mitel much increased research and development expertise.

The impact of the GPS acquisition on Mitel operations and revenue is significant. The capacity to use 0.35 micron technology on 8 inch wafers pushes Mitel onto the front lines of semiconductor design and manufacture, and greatly broadens our opportunities. The ability to produce bipolar and complementary metal oxide semiconductor (CMOS) components as well as an impressive mixed-signal analog/digital circuitry capability are among the many benefits of the GPS acquisition.

A third acquisition — that of the Customer Premises Equipment business unit of Centigram Communications Corporation for U.S.$26.8 million — was made just after fiscal year end. The acquisition complements and further extends our business communications systems portfolio with voice messaging solutions to meet customer demand for voice mail and unified messaging.

**A GLOBAL COMMUNICATIONS COMPANY** Mitel has emerged in 1998 as a truly global communications company, serving the needs of people, corporations, governments and the societies they represent at the different stages of their technological evolution. With a broad and balanced range of products to serve the needs of developing as well as developed nations, Mitel proved this year that opportunities for continued growth and increased revenues are many and realizable. While our internal organization still reflects two major operational areas — Semiconductors and BCS — our product offerings do in fact extend across a comprehensive value chain from the smallest integrated circuits we sell to original equipment manufacturers to the complete systems we design, build, install and service. By ensuring our presence at every link of this value chain, Mitel has kept in close touch with every category of customer along the communications continuum, and has achieved a unique perspective from which to foresee opportunities as they emerge.

**PRODUCTS OF INNOVATION AND PERFORMANCE** The spirit of innovation at Mitel has never been keener. With a committed research and development mission to bring the highest-quality products to market in a timely fashion, we continued this year to build and aggressively manage an impressive portfolio of products.

A new Planet chip set gives Mitel a significant edge in the digital handset market, with globally positioned customers placing sizeable standing orders. Our first two cell-based application-specific integrated circuits (ASICs) have put us securely on the road to a fast-growing market for cell-based rather than gate-array chips and, this year, a major microprocessor supplier rated us #1 in the world for ASIC supply. Mitel vertical cavity surface emitting lasers (VCSELs) have taken off with the introduction of the first array VCSEL for four fibers, with resulting performance gains in signal power. And our low-voltage Caller-ID chips are now the top seller in the world.

This year too, Mitel's SX-2000™ PBX for Windows NT™ made it possible to deliver call control in an open-server environment, and the Lightweight Directory Access Protocol (LDAP) enabled enterprises to include the voice domain in their directory services strategies. A new range of 4000 Series SUPERSET™ telephones brought intelligent functionality to the desktop with a pleasingly small footprint and a broad range of interfaces. Our Network Gateway for the NT server offered

a new level of intelligence to voice-over-data networks. With strong sales this year, the SX-200™ ML PBX aimed at the under-100 line small business achieved the promise of its successful launch late in Fiscal 1997, while the launch of the SX-200 EL PBX addressed the need for a platform that is scalable up to 350 lines.

At Mitel, our products are designed and built to satisfy the needs of a quickly changing world with maximum performance and cost advantage to our customers. With products ranging from set-top boxes which route incoming radio frequency (RF) signals to residential televisions, computers and phone systems to smart car alarms that sound when invisible fields of microwave energy are penetrated, Mitel has proved this year that its capacity for invention is as impressive as its ability to perform. Highlights of this year's major product launches begin on page 20, and can also be studied in detail by visiting our website at www.mitel.com.

**ONWARD FROM SILVER TO GOLD** In 1998, we celebrate an important anniversary. For 25 years now, Mitel has led the marketplace with a novel and appealing array of products for the world of communications, arguably the sector of technology changing faster than any other.

After a quarter century, the energy within the Company is palpable. Our task now is to improve the profitability of our newly acquired semiconductor operations while aggressively continuing to refresh our product portfolio company wide.

With this year's achievements and acquisitions, we stand poised to exploit emerging market opportunities with a complete and evolving range of visionary products which bring the spectrum of communication technologies to our global customers in the open, distributed and standards-based environment of the converged world.

JBMillard

Dr. John B. Millard, PRESIDENT & CHIEF EXECUTIVE OFFICER

*(Unless otherwise stated, figures are quoted in Canadian dollars)*

90°

75°

60°

30°

**around the world,**
**communication needs are as**
**different as the societies from**
**which they emerge**

0°

30°

60°

75°

90°

**A PRACTICAL WORLD VIEW** Those who have traveled the world know that people who live in different places also live in different times. We know. At Mitel, the clients we serve around the world come to us with particular needs that reflect different stages of technological evolution.

One of the major divergences — at least in the business of communication products — is between those markets in developed and developing economies of the world. Needs in these markets are different, and the features and benefits which drive purchases in these markets are different too. In the developed world — a world driven by intense competition — our customers are typically companies interested in products and services which reduce their costs and thus increase profitability. In developing economies, however, the customer base is different — often comprised of partners engaged in building a basic national infrastructure of which telecommunication services are a critical part.

At Mitel we know the world is different from one place to another, so we provide a continuum of products across a value chain which ensures that customers in both the above situations have a ready access to the technologies they need to forward their own objectives, wherever they are in their development cycles.

**PREPARING FOR MARRIAGE** The common vision of the coming converged world — albeit a vision limited by brief experience — is one in which networks of computers make the handling of voice and data a coherent and unified function. The worlds of telephony and computing are bound for marriage. There are problems of course. Compared with telephones, computers are expensive, complicated, unreliable and often incompatible devices. But in the vision of a converged world, such limitations are little more than temporary challenges. The race is on.

In this stimulating if chaotic environment, the precise nature of what might be the next great global communication solution defies prediction, but the ongoing opportunities for sales of products to those reaching for that solution are many and vast.

And there stands Mitel. Our aim is clear: as a company which makes a full range of products from lone integrated circuits to complete telephone switching systems, Mitel is standing by to benefit from every trend and development on the road to convergence, no matter where in the world it occurs.

**WHERE THE FUTURE FIRST GLIMMERS** The Mitel value chain is a metaphor for the aggressively managed product portfolio that serves Mitel customers at every level — from equipment manufacturers through resellers and dealers to corporations and their individual end users. Along that value chain, we keep in close touch with every group that uses our products. Communication needs are ever changing, and our bet is that by having clever people maintaining excellent relationships with our customers at every level, the likelihood of our coming across the next great idea and exploiting it — before the competition does — is high.

The best way we know to profit from the future is to make sure we're on hand when and where that future first appears. **READ ON...**

from Kyoto to Kathmandu,
semiconductors are the raw material
for the next millennium

# THE WORLD IS WAITING

s e m
i c o
n d u
c t o
r s

[illegible] silicon: these are the building [illegible] In a world hungry for more com- [illegible] devices, the semiconductor is the point [illegible] technological innovation exists. This year, [illegible] represented [illegible] percent of all Mitel sales. From our plants in [illegible] Sweden and Canada, Mitel created and shipped integrated [illegible] of telecommunications. Our chips are the native intel- [illegible] phones, pagers, car alarms, global [illegible] systems, PBXs, [illegible] routers and an endless variety of cutting-edge [illegible] industry [illegible]


Communication knows no boundaries.

**telephone switching systems [illegible]**
**throughout China, a country of [illegible] billion people,**
**contain Mitel components**

# THE WORLD IS SMALLER

c o m
p o n
e n t
s

But [illegible] systems that call [illegible] the Mitel logo [illegible] components [illegible] telephony equipment [illegible] throughout the country [illegible] Mitel [illegible] components [illegible] (VAS) [illegible] more than just Mitel [illegible] both the [illegible] industrial [illegible] global telecommunications industry as a whole.

stand by:
your next fax to Cape Town
could be a local call

# THE WORLD IS CHANGING

sub-systems

[illegible] link in the value chain, are struc- [illegible] and software components with [illegible] Internet faxes [illegible] telephone companies can now offer [illegible] long-distance facsimile transmission [illegible] ble: the fax is turned into digital information and [illegible] Internet. At the other end, the reverse takes place; [illegible] ed back to an analog voice call, then dropped back [illegible] e service to reach its final destination. A high-perfor- [illegible] customer wins. The telco wins. Mitel wins.


FAX

[illegible]

# THE WORLD IS BUSY

[illegible]

### ...town meets high tech: a single voice and data system for the City of ... North Carolina

# THE WORLD IS READY

i n t e g r a t i o n

...link in the Mitel value chain lies systems integration ... strategic thinking on how to improve a ... much a part of delivery as product installation. Con... North Carolina. With only four NeVaDa™ hubs at key ... Police Department, Utilities Management and the Sign... including the Fire Department ..., Mitel delivered a single, centrally manageable net... supporting advanced voice applications, high-speed data, and ... benefit? Simplified network management, efficient mainte... cost savings, and radically improved access to city services ...

## Highlights from the communications continuum

With an unwavering focus on creating world-class solutions that meet and anticipate client needs across the communications continuum and around the world, Mitel has carried on its tradition of product excellence in Fiscal 1998. The following overview provides a brief yet representative snapshot of Mitel's accomplishments.

### Semiconductor

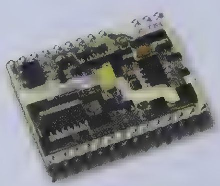
1 – WIRED

products for a changing world

DAA The Wired Business Unit of Mitel Semiconductor launched two Data Access Arrangement (DAA) products: MH88435 and MH88437. These new products, which interface analog phone lines with digital modems, are the only one-part solutions available worldwide which meet regulatory specifications, significantly reducing time to market for OEMs.

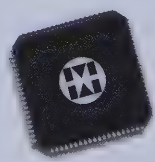
ATM Mitel continued its movement into ATM. The MT90500 introduced this year, and a product which allows voice to be integrated into ATM networks, leads the industry in the number of voice channels supported and has made transport of voice over ATM networks affordable. The MT90500 has generated significant design wins with Mitel customers.

CALLER ID CHIPS The Wired Business Unit continued development of Caller ID chips. The introduction of the extended-voltage MT88E43 Caller ID chip helped Mitel maintain its No. 1 position in this global market.



DAA


ATM chip



Planet chip

SWITCHING In the switching portfolio, Mitel made investments toward developing a 3-volt product line for switches and other traditional products which will reduce power requirements. Product launches are upcoming.

COMBO FRAMERS The Wired Business Unit launched the MT9075 E1 Combo Framer and is in the final stages of launching the MT9074 T1 Combo Framer. T1 is the North American and Japanese standard for interconnecting networking systems over the telephone network; E1 is the standard in the rest of the world. This product line facilitates the smooth interconnection of video, data and voice signals across Wide Area Networks (WANs).

ETHERNET PRODUCTS Acquired with GPS, the Ethernet product line interconnects PCs and servers. In Fiscal 1998, Mitel released the NWK914 Ethernet PHY chip, one of the first 10-megabit-per-second parts to hit the market. The NWK954, a 100-megabit-per-second part, will be launched shortly. This 4-channel PHY and Repeater Single Chip functions inside the network hub to internally switch channels.

2 – WIRELESS

ANALOG & DIGITAL CELLULAR CHIP SETS Mitel's position in the market for RF chip sets for cellular handsets remains strong. Our ACE chip set provides a complete solution for analog handsets. The Planet chip set is being introduced now to the fast-growing market for digital handsets. This full processor-to-antenna suite for Code Division Multiple Access (CDMA) dual-mode cellular phones represents a comprehensive, competitive offering.

CELLULAR BASE STATION TECHNOLOGY With the acquisition of GPS, Mitel has extended its system offering to provide a

complete framer, switch and RF solution. Our complementary capability in both bipolar RF technology and CMOS baseband technology gives the Company a competitive edge. With the expansion of cellular standards such as Code Division Multiple Access (CDMA) and Time Division Multiple Access (TDMA), Mitel is well positioned to be a market leader. It is equally positioned to capitalize on the burgeoning market for handsets linked to base stations.

WIRELESS LAN COMPONENTS In the LAN-component arena, Mitel began developing radio transmitters on PCs for clients with vertical-market mobility needs, such as stock-room management, patient-record sharing in hospitals, inventory verification in retail outlets, and information access in stock exchanges. The Company recently launched a Waverider chip set which provides the highest throughput at the lowest cost of any solution in the industry.

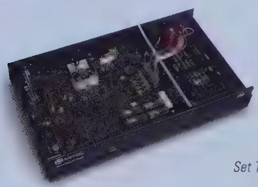
SET TOP BOXES Mitel continued to be the No.1 supplier worldwide of tuners and RF components to Set Top Box (STB) manufacturers. STBs convert satellite, cable TV and terrestrial TV signals for transmission through PCs, phones and televisions. Mitel's RF technology sits inside the box and pulls in the signals.

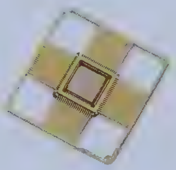
PAGERS Mitel continued to be a major supplier of integrated circuits for pager applications. Its most recent application currently being launched, the ZIF100, is compatible with Motorola's FLEX™ technology, the new standard being deployed worldwide.

GLOBAL POSITIONING SYSTEMS Through GPS, Mitel continued to deliver its total chip set solution for Global Positioning System applications.

3 – ASIC

MEDICAL The reliability of Mitel's medical ASICs has helped the Company maintain outstanding growth in this market. Mitel is the No.1 supplier of pacemaker ASICs and hearing-aid ASICs worldwide.


Set Top Box


ASIC


VCSEL

GATE ARRAY & CELL-BASED ASICs With the acquisition of GPS, Mitel has added Gate Array and Cell-based ASICs to its more traditional digital ASIC business. It has developed hundreds of Cell-based ASIC custom designs for clients. Though the development process is more lengthy with Cell-based design, these solutions are more cost-efficient than Gate Array designs and more tailored to customers' individual needs.

EMBEDDED CORES Mitel continues to thrive in the Embedded Core market with the combination of its leading capability in ASIC technology, its expertise in system-level integration and its advanced Cell-based design skill. Embedded cores include 32-bit Asynchronous Response Mode (ARM) thumb core, oak and pine Digital Signal Processing (DSP) cores, and microprocessor engines. Mitel is one of the few companies licensed to embed these cores.

4 – OPTOELECTRONICS

VCSELs Mitel launched the first Array Vertical Cavity Surface Emitting Laser (VCSEL) to hit the merchant market worldwide that can connect up to four fibers in one package. Because VCSELs convert electricity to light with low power and a high conversion rate, they drive more power into the fiber with much less loss. Mitel launched a number of additional VCSELs for other applications, including a gigabit Ethernet offering.

DVD With the acquisition of GPS, Mitel has entered into the Digital Versatile Disk (DVD) market. A new chip that reads information from a disk and converts it to digital format will soon be launched. DVD allows 40 times the amount of data

to be stored on a PC and delivers a phenomenal data transfer rate. It is the storage medium for PCs of the future. Mitel is currently partnering with DVD designers to develop the read channel portion of DVD (the light in, data out optical connection), an area where high market potential exists.

DIODE The PIN/PRE-AMP Combo Diode for fiberoptic communications was also launched in Fiscal 1998. It receives light and amplifies the electrical signal. The integration incorporated in this product reduces noise and provides a better signal.

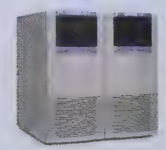
5 – POWER

HIGH POWER APPLICATIONS Mitel continued to deliver its Thyristors and Gate Turnoff Thyristors (GTOs), the workhorses of the industry which power electric trains, cranes, elevators and other transport equipment. It also continued production of its Smart Power Modules which operate washing machines, dishwashers and other appliances while reducing noise and conserving energy.

AUTOMOTIVE Mitel pursued development of microwave-based car alarms that create an invisible wall of RF inside cars. They are currently developing products for intelligent cruise control.

6 – CUSTOM WAFER FOUNDRY

MICRONS With the acquisition of GPS, Mitel has adopted internal CMOS manufacturing capabilities down to 0.35 microns on 8-inch wafers. It will be expanding this business dramatically over the next fiscal year. In Fiscal 1997, Mitel made a significant investment to upgrade fab capability at the Bromont plant from 4 inches to 6 inches. Conversion of that fab process has progressed well, and Mitel has begun manufacturing using the new 6-inch process, providing added capacity to Mitel Semiconductor.



SX-2000 LIGHT

SX-200 EL

GX5000

## Business Communications Systems

7 – SYSTEMS

PBXs Mitel continued to deliver its core PBX systems to markets around the world. The Company has refocussed on the under-100-line marketplace in a significant way with the introduction of the SX-200 ML and SX-200 EL systems which address market needs for switching platforms that offer advanced technology to smaller enterprises. The ML and EL models maintain and enhance the functionality of the SX-200 while reducing line size from between 80 and 150 users to between 30 and 80 users. While the ML model exists as a single cabinet, the EL model is scalable from 80 up to 350 lines to meet the needs of growing businesses. Mitel also introduced the SX-2000 PBX system for Windows NT which moves its SX-2000 product to an open platform — the first to do so of the top five PBX manufacturers in North America.

TELEPHONES As part of its value-added product offerings that enhance Mitel switching platforms, the Company introduced the 4000 Series of SUPERSET telephones. These compact telephones were developed based on user feedback to meet the needs of desktop workers into the next century.

MITEL PERSONAL ASSISTANT Mitel leveraged the telephone technology incorporated into its 4000 Series into another business opportunity by applying the look, feel and design to the *Mitel Personal Assistant*™ portfolio for the Small Office and Home Office (SOHO) marketplace.

CALL CENTER SOLUTIONS Mitel took a fresh look at its portfolio of Call Center Solutions. It added incremental function-

ality to its Call Management, Agent Automation and Automatic Call Distribution software, and moved each offering to a Windows NT environment to meet the demands of the marketplace.

MITEL OPS MANAGER In the operations management arena, Mitel developed an application that runs on an open platform and allows users to communicate via Simple Network Management Protocol (SNMP), enabling them to capitalize on SNMP's ability to converge voice and data networks. This facilitates SNMP management of Mitel's SX-2000 PBX, the SX-2000 for Windows NT PBX and NeVaDa, making the voice network manageable in an IT infrastructure.

NETWORK GATEWAY Mitel ported its Network Gateway into an NT server. The NT server links back into the SX-2000 PBX allowing functionality with ISDN capability and bringing voice advantages to data applications. Unlike most competing products, Mitel's new Network Gateway product provides IT managers with trunk reports so they can determine how best to divide the designation of channels between voice and data traffic — enabling a more cost-effective use of bandwidth.

MITEL MAIL Mitel introduced its latest voice mail offering, Mitel MAIL LITE, which reduces line size and extends voice mail capability to smaller enterprises.

MITEL MEDIAPATH SERVER As part of its commitment to providing integrated, industry-standard voice and data solutions, Mitel selected Microsoft BackOffice™ Small Business Server as the preferred suite for the Mitel MediaPath™ Server.

### 8 – ALTERNATE NETWORK AND REMOTE ACCESS

REMOTE TELEWORKER To address the growing need for the convergence of voice and data on the home- or small-office desktop, Mitel's Gandalf Division introduced the XpressConnect 5232i PBX Extender Pack, an off-premise link extender which allows a PBX line to be extended to a remote location via ISDN. This offering works with Nortel PBXs and telephones; Mitel is currently developing a comparable solution for its own PBXs and DNIC phone.

4000 Series SUPERSET telephones

XpressConnect 5232i PBX Extender Pack

Mitel Mini Dialer

VOICE AND FAX PLATFORMS Mitel continued to deliver traditional voice and fax platforms but added variants to its portfolio to meet the needs of European and Pacific-Rim customers. Mitel also expanded its digital platform into those same geographic markets.

RESIDENTIAL DIALER Mitel developed a SMART-1 Concept residential dialer for the U.K. market of alternate carriers which simplifies the dialing process for customers by eliminating the need for inputting access codes. The availability of this product will continue to expand into other European markets.

FAX-OVER-INTERNET Mitel also introduced a fax-over-Internet Mitel Mini Dialer (MMD). This dialer routes faxes from legacy fax systems to the Internet. Documents are then converted to Internet Protocol (IP) and sent over the Internet — providing valuable savings in long distance charges. Over the next fiscal year, this product will be extended to integrate fax-to-IP conversion into the dialer itself.

### 9 – CENTRAL OFFICE

LOCAL EXCHANGE Mitel completed development of its GX5000™, a Custom Local Area Signaling Service (CLASS) and Signaling System Number 7 (SS7) offering that is rich in subscriber features. It also completed hardware development for its ISDN BRI (Basic Rate Interface) offering. Software development will follow this fiscal year.

*For more information about Mitel's extensive product portfolio, visit our website: www.mitel.com*

Last year, Mitel was awarded more patents than in any other year of its 25-year history. The patents represent more than just great ideas; they are testament to the renewed spirit of innovation the Company has achieved. Our common goal now is to bring products of the highest quality and relevance to market in the shortest possible time.

So we've made changes. This year, we brought a host of new capabilities in house, reducing product-development time and bringing manufacturing operations at all levels into closer touch with those who design solutions for an increasingly competitive and demanding world.

## inventing better and faster

The acquisition of Plessey is a major coup. With access to 0.35 micron CMOS technology, many of our best selling designs can now be transformed into complex chips at an extremely competitive price. This capability is the surest route to low price and security of supply, which we can then guarantee to our customers. And with more than 500 Plessey design engineers now on our staff, Mitel is poised to tackle any problem our customers can throw our way. With the acquisition of Centigram's CPE Business Unit, we have unparalleled in-house R&D expertise in the field of voice messaging. Similarly, with the Gandalf technology business in house, we can now turn to remote-access data-compression designers with the insight and expertise to lead us into an explosive new market.

Mitel R&D. It's no accident that we're inventing better and faster. It's no mystery that our products have never been more stable, nor more relevant to the needs of our customers. With a publicly committed strategy towards open systems, and an environment in which our own developers are inspired to think smarter and faster, we're not just ready for the converged world, we're helping to invent it.

## we stand accountable

For many years, Mitel has worked diligently to consider and lessen the impact on the environment of each and every business activity. Taking that commitment to environmental protection one step further in Fiscal 1998, Mitel earned ISO 14001 certification for four of its manufacturing locations in the United Kingdom and Canada. ISO certification at this level, which will soon be extended in the future to all our manufacturing locations, affirms that Mitel's approach to environmental protection worldwide is working and working well.

Over the past fiscal year, Mitel enhanced its already stringent energy-consumption measures, and put in place continuous monitoring and reduction programs for volatile organic compounds (VOC) and acidity emissions at selected Semiconductor manufacturing sites. It made further strides in reducing the use and disposal of hazardous substances, extended its efforts to divert solid waste, particularly plastics, away from landfill sites, and established further improvement objectives for the Bromont, Kanata and Caldicot operations.

Mitel has emerged as a sophisticated and focused customer-driven powerhouse through the dedicated efforts of more than 6,000 employees around the globe — employees who consistently demonstrate their determination, tenacity, resilience and skill.

Mitel strongly believes in nurturing this powerful spirit, and creating a challenging and rewarding workplace environment. The Mitel Game Plan for Success is proof. This Human Resources strategy emphasizes individual competencies and encourages high performance. As part of its implementation over Fiscal 1998, a Hard Skills and Behavioral Competency Dictionary was published, a centralized resource that lists requirements for each of the various roles within Mitel. Complementary personal-assessment tools are currently being introduced to help employees identify areas that require personal development — both for their current roles and in preparation for future career opportunities. Learning Maps available from the Mitel Intranet site help employees identify resources for self development — multimedia tools, leader-led training, on-the-job learning, videos and books. Building its team and recruiting new members according to this strategic Game Plan will give Mitel a unique competitive advantage.

## game plan for success

Mitel takes great pride in its role as a good corporate citizen. Each year, the Company contributes financial support where needed in all parts of the community to not-for-profit groups, charitable organizations and educational programs, and for special sports and arts-and-culture events. In every case, Mitel seeks out initiatives from which Mitel employees and their families can benefit.

Fiscal 1998 was no different. To ease the burden of victims of the horrendous ice storm that struck Eastern Ontario and Quebec, Mitel contributed $25,000 to the Power Aid Live benefit concert. The Company continued to support the 'home team' with sponsorship of the Ottawa Senators NHL hockey club, and sponsored other sporting events such as the Labatt 24-Hour Relay. To encourage local artists, Mitel sponsored the Ottawa Blues Festival, and funded a tour of local schools by performers from the Manotick Fringe Festival. As part of its commitment to youth education, Mitel continued to sponsor O-Vitesse, a program which trains engineers and scientists from outside the technology sector as much-needed software engineers.

## sharing our fortune

## glossary of terms

**Asynchronous Transfer Mode (ATM)** A fast packet switching technique by which short packets or cells containing data, voice or video signals are moved over networks at high speed.

**Bipolar Radio Frequency (RF)** Bipolar is the predominant signaling method used for digital transmission services, while RF refers to electromagnetic waves propagated in free space.

**Code Division Multiple Access (CDMA)** A form of digital cellular phone service. A spread spectrum technology that assigns a code to all speech bits, sends a scrambled transmission of the encoded speech over the air and reassembles the speech to its original format. Benefits are increased capacity and more efficient use of spectrum.

**CMOS Baseband Technology** Baseband is a form of modulation in which signals are applied directly to a transision medium without using frequency division multiplexing. This baseband circuit can be implemented in an integrated circuit using CMOS (Complementary Metal Oxide Semiconductor) technology, which is known for its low power consumption.

**Combo Framer** An integrated T1/E1 transceiver circuit with combination digital framer and analog line interface unit (LIU). This standard compliant device transmits and receives data at 1.544Mb/s or 2.048Mb/s over transmission lines. Traditional market is high speed data transmission between central office and PBX, but a new class of markets has emerged recently, these are wireless base-stations, central office to ISP (Internet Service Provider), remote LAN access, and HDSL terminal units. An example is the MT9074 T1/E1/J1 long haul combo framer.

**Data Access Arrangement (DAA)** The telephone line interface for data (modem) and/or voice communications. It provides the physical connection to the telephone company's analog POTS (Plain Old Telephone Service) line.

**Digital Versatile Disk (DVD)** Digital video disks of the same size as CD-ROMs that store music, video or data.

**E1** A 2.048 Mb/s digital transmission link. It is the digital transmission standard for Europe.

**Embedded Cores** They are microprocessors and other devices built into ASICs.

**Ethernet PHY Chip** PHY is an industry name for physical specifications. An Ethernet PHY chip provides a physical interface between the network transmission medium and network equipment.

**Gate Array** A circuit consisting of an array of logic gates aligned on a silicon substrate in a regular pattern. This generic collection of gates can be connected in any sequence, by the user, to perform a specific function.

**Gate Turnoff Thyristor** The GTO is a power switching device that can be turned on by a short pulse of gate current and turned off by a reverse gate pulse. The turn-off time is short, thus giving it more capability for high-frequency operation than thyristors.

**Gigabit Ethernet** This is a high bandwidth Ethernet connection (>1000Mb/s) which uses a fibreoptic transmission medium.

**Global Positioning System** A system of space-based satellites which continuously transmit accurately timed signals which are meant for reception by handheld or vehicular based receivers which calculate and display the exact physical location in longitude and latitude.

**Integrated Services Digital Network (ISDN)** An integrated digital network in which the same digital switches and digital paths are used to establish connections for different services, for example, telephony and data.

**ISDN Basic Rate Interface (BRI)** An ISDN system in which two 64 Kb/s bearer channel (B-channel) and one D channel are delivered to the desktop.

**MediaPath** Mitel's MediaPath utilizes Microsoft's BackOffice, as a foundation for the voice enterprise communication application for businesses, workgroups and corporate branch offices with 100 or fewer users who are interested in deploying voice and data converged business applications. Running on a standard Microsoft Windows NT Server, MediaPath offers a server-based solution as an alternative to the traditional PBX.

**Network Gateway** The entrance and exit to a communications network.

**NeVaDa (Networked Voice and Data)** A Mitel offering that provides the infrastructure for converging voice and data and video onto one universal, broadband switching fabric.

**Optoelectronics** The range of materials and devices that generate and transmit, amplify, detect and control light.

**Private Branch Exchange (PBX)** A "branch" of a telephone company's central office exchange, usually located on the customer's premises, to provide connections between the extension telephones within the business as well as connections to public and private networks outside the business.

**Simple Network Management Protocol (SNMP)** A network management protocol used in most Internet applications.

**T1** A 1.544 Mb/s digital transmission link; the North American standard for digital transmission.

**Time Division Multiple Access (TDMA)** One of several technologies used to separate multiple conversation transmissions over a finite frequency allocation of through-the-air bandwidth.

**Thyristor** A bistable semiconductor device comprising three or more junctions that can be switched from the off state to the on state, or vice versa, such switching occuring within at least one quadrant of the principal voltage-current characteristic. Used for power switching.

**Vertical Cavity Surface Emitting Laser (VCSEL)** The latest development of laser light sources used in optical fiber communications at speeds of several gigabits per second e.g. all information you can store on a PC's hard disk would be transferred in a few seconds.

*Acknowledgements: Newtons Telecom Dictionary, Mitel personnel.*

# FINANCIAL REVIEW

## [illegible]ion and analysis of financial condition and results of operations

*(in millions of Canadian dollars, except per share amounts)*

Mitel's revenue reached a record high in Fiscal 1998 due to strong performances in each of the core businesses and recent acquisitions. Total revenue grew by 28 percent to $888.5 in Fiscal 1998 from $695.5 in Fiscal 1997. By business group, Semiconductor revenue grew by 46 percent and Business Communications Systems ("BCS") revenue was up 20 percent from the previous year. The Semiconductor growth rate was mainly attributable to increased shipments of integrated and hybrid circuits and to the consolidation of the Plessey Semiconductors Group ("Plessey") which was acquired on February 12, 1998. The BCS revenue growth was driven by higher sales volumes of PBX systems, telephone sets, new convergent systems and by increased service revenue.

The Company reported record net income of $91.9, or $0.82 per share, for the year ended March 27, 1998, an improvement of $53.9, or $0.50 per share, over Fiscal 1997. Fiscal 1997 net income was $38.0, or $0.32 per share, after deducting a fourth quarter restructuring and other charge of $13.0, or $0.12 per share. Primary drivers behind the improvement were the higher sales volumes and lower expenses as a percentage of sales resulting from actions taken to focus operations and improve the sales channels. Net income also benefited from an accrual for investment tax credits (ITCs) amounting to $18.0, or $0.17 per share, which relate to ITCs expected to be realized in the foreseeable future. There was no such corresponding item or amount in Fiscal 1997. Fiscal 1998 earnings per share were reduced by $0.04 per share, after interest and tax, due to the consolidation of Plessey which was acquired mid-way through the fourth quarter. Net income for the three fiscal years ended March 27, 1998, March 28, 1997, and March 29, 1996 as determined by U.S. accounting principles is detailed in Note 22 to the consolidated financial statements.

During Fiscal 1998, the Company completed two acquisitions as well as two others shortly after its Fiscal 1998 year-end. On February 12, 1998, the Company acquired all of the capital stock of four affiliated entities, which together with their respective subsidiaries comprise Plessey, from The General Electric Company plc ("GEC") for U.S.$225.0 in cash. Plessey is an international semiconductor company focused primarily on telecommunications and media applications. Management believes the combined semiconductor business will rank Mitel among the major networking and telecommunications semiconductor companies in the world with a diverse product offering and advanced technology expertise along with the ability to produce bipolar, Complementary Metal Oxide Semiconductor (CMOS) and optoelectronic components. The BCS portfolio was strengthened on August 8, 1997 with the acquisition of the assets and remote access technology business of Gandalf Technologies Inc. ("Gandalf") for $21.6 in cash. Gandalf's products facilitate, in a cost effective manner, high volume data and voice communications between the corporate office, local branches, teleworkers and agents in the field. In addition, on May 8, 1998, the Company acquired the Customer Premises Equipment ("CPE") Business Unit of Centigram Communications Corporation for U.S.$22.0 in cash. Certain working capital assets related to that business were also purchased by Mitel for U.S.$4.8 in cash. The acquisition will complement Mitel's BCS communications portfolio with voice messaging solutions to meet increasing customer demand for voicemail and unified messaging solutions. On May 19, 1998, the Corporation acquired the products, technology, research and development facilities and sales and marketing organization of Glasgow-based Telecom Sciences Corporation Limited (TSc) for $8.0 in cash. The acquisition enhances Mitel's product portfolio with ISDN business products for the small-to-medium enterprise market. TSc was formed in February, 1996 following a management buy-out of the former Philips Business Communications Systems plant in Scotland. TSc was in receivership at the time of the acquisition.

The following discussion and analysis explains trends in the Company's financial condition and results of operations for the year ended March 27, 1998 compared with the two previous fiscal years, and is intended to help shareholders and other readers understand the dynamics of the Company's business and the key factors underlying its financial results. Certain statements in this management's discussion and analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and assumptions include, among others, the following: general economic and business conditions; demographic changes; import protection and regulation; rapid technology development and changes; timing of product introductions; the mix of products/services; industry competition, industry capacity and other industry trends; and the

ability of the Company to attract and retain key employees. The consolidated financial statements, notes to the consolidated financial statements and supplementary information constitute an integral part of and should be read in conjunction with this management's discussion and analysis. Readers may wish to make reference to the glossary of terms on page 26 of the Annual Report to assist in their understanding of this discussion.

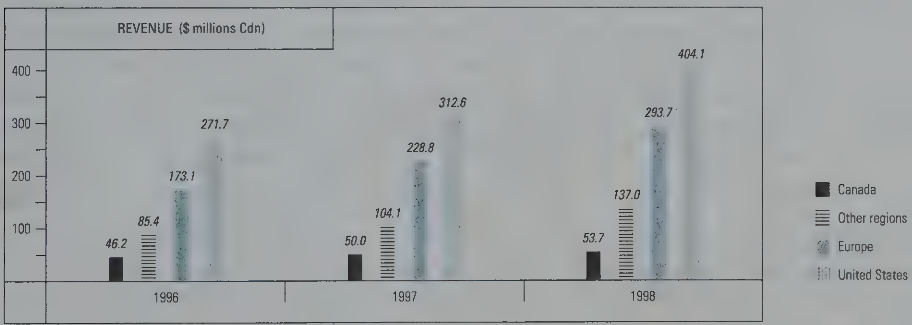
## RESULTS OF OPERATIONS

Mitel's business is global and comprises the design, manufacture and sale of semiconductors, subsystems, and systems to world markets in the communications industries. These products and related services include integrated circuits for wired and wireless applications, applications-specific integrated circuits (ASICs), optoelectronic devices and custom silicon wafers; voice communications systems; networked voice and data systems, CTI systems and applications; telephony-enabled servers; public switching systems; and alternate network and remote access products.

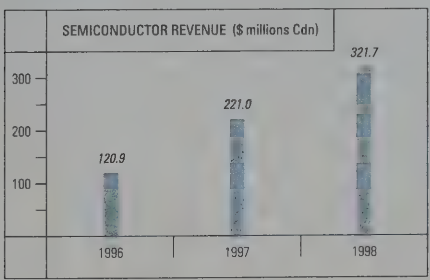
The Company sells its products through both direct and indirect channels of distribution. Factors affecting the choice of distribution, among others, include: end-customer type, the level of product complexity and integration requirements, the stage of product introduction, geographic presence and location of markets, and volume levels.

## REVENUE

Revenue during the last three fiscal years, based on the geographic location of Mitel's customers, was distributed as follows:




For the year ended March 27, 1998, the net movement in exchange rates from Fiscal 1997 favorably impacted total revenue by 3 percent ($19.4) primarily as a result of changes in the U.K. pound sterling and U.S. dollar exchange rates. Fiscal 1997 revenue was favorably impacted by 0.3 percent ($2.3) as a result of changes in the U.S. dollar and U.K. pound sterling exchange rates.




Semiconductors comprise integrated circuits for wired and wireless applications, ASICs, optoelectronic devices and custom silicon wafers. As a percentage of total revenue, semiconductors accounted for 36 percent, 32 percent and 21 percent, respectively, in fiscal years 1998, 1997, and 1996.

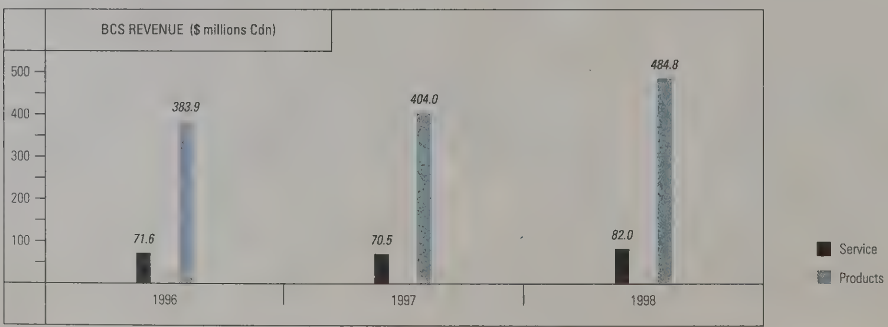
Semiconductor revenue increased by 46 percent from last year as a result of increased demand for the Company's integrated circuits and thick film hybrid products, primarily in the U.S. and Asia Pacific regions, and the effects of consolidating recently-acquired Plessey mid-

way through the fourth quarter. Excluding the Plessey acquisition, the increase in Mitel's semiconductor revenue reflected the world-wide growth in the communications segment of the semiconductor industry and growth in the market for ASICs, particularly for medical applications. Technological advances and increasingly complex end user requirements affecting telecom and datacom networks have stimulated the demand for Mitel's wired communication components and ASICs.

In recent years, the strong demand in global communications markets caused Mitel's principal semiconductor operations to reach capacity. The Company took major steps in Fiscal 1996 to expand its production capacity through both the acquisition of Mitel Semiconductor AB, formerly ABB HAFO AB, which has a semiconductor plant in Järfälla, Sweden, and a major capital expansion program at its fabrication plant in Bromont, Quebec, Canada. Both initiatives were necessary to meet the growing demand for Mitel's integrated circuits. The most significant part of the first phase of the Bromont expansion program, which increased the volume capacity of the existing 100 mm wafer production, was completed during the first quarter of Fiscal 1997. The second part of the first phase, which introduced new 0.8 micron technology, as well as the second phase, which increased the plant's production capacity by converting to 150 mm wafer production, was substantially completed in the fourth quarter of Fiscal 1998. The acquisition of Plessey also provides the Company with significantly more manufacturing capacity.

Management believes the Plessey acquisition significantly enhances the Company's operations, technologies and product portfolio. In particular, Plessey provides a strong customer base and expanded geographic presence, enhanced research and development capability, expanded manufacturing capabilities, and a diverse and complementary product offering. Plessey brings to Mitel a strong direct channel relationship with its customers. Technology expertise was obtained in radio frequency and high-speed transmission for communications applications; mixed-signal, high-frequency and high-speed transmission for communications and ASICs markets; and gate-array and reduced instruction set computer processor technologies. The manufacturing capability principally includes two semiconductor fabrication facilities, a leading-edge 150 mm bipolar facility in Swindon, England and a high performance 200 mm CMOS facility in Plymouth, England which uses 0.35 micron technology. The product portfolio encompasses ASIC components, wireless applications, and mass optical storage and networking (fast Ethernet) products, complemented by systems level integration expertise for custom solutions. At the time of the acquisition, the Plessey group had annualized sales of approximately U.S. $275.0 and was incurring losses. Management expects that Plessey will have a dilutive effect on the Company's earnings in the first half of Fiscal 1999.

Fiscal 1997 semiconductor revenue increased over Fiscal 1996 by 83 percent primarily as a result of the additional revenue from Mitel Semiconductor AB, which was acquired at the end of Fiscal 1996, and increased demand for integrated circuits, wafers, and thick film hybrid products in all regions. On October 23, 1996, the Company sold its non-strategic thermal print head operation to a German distributor for a nominal amount.



Business Communications Systems (BCS) comprise PBX and peripheral products, open communications systems, applications, systems integration, the GX5000 public switching system, and alternate network and remote access products. All of the Company's service revenue relates to BCS, primarily PBX.

Compared to Fiscal 1997, BCS product revenue in Fiscal 1998 increased by 20 percent, from $404.0 to $484.8, due to higher sales volumes of SX-2000 and SX-200 systems, including the associated pull-through of system sets; incremental sales of remote access products; new convergence system sales of networked voice and data products; and increased shipments of alternate network access products.

U.S. indirect channel sales benefited from a strong North American economy and the successful launch of the SX-200 ML late in the fourth quarter of Fiscal 1997. The SX-200 ML voice system is aimed at the fast-growing small business, under-100 line, market in the United States and other countries. The SX-200 ML was made available to the Company's U.S. supply houses and dealers and selected Canadian and Caribbean telephone companies during the first quarter of Fiscal 1998. U.S. direct channel sales benefited from strong growth in the installation of new systems as well as from upgrades in the existing customer base.

With respect to Europe, sales increased in Fiscal 1998 as a result of recently deregulated network access services in the U.K. which created a strong demand by alternate carriers for Mitel's alternate network access products. European PBX sales also increased on system upgrades sold to the installed base.

BCS sales into the Asia Pacific region continue to be adversely affected by the ongoing effects of weakened economies and intense price competition in that region. Management believes this trend will continue for the foreseeable future without a significant impact on the Company's results of operations.

In proportion to total revenue, BCS service revenue remained steady at approximately 10 percent of total revenue. Service revenue grew mainly due to the managed service business in the U.K. where telecom product-related services are channeled through outsourcing companies. The program was introduced in the second half of Fiscal 1997.

Fiscal 1997 BCS revenue increased by 4 percent to $474.5 from Fiscal 1996's revenue of $455.5. The revenue growth was due to increased demand for alternate network access products, improved sales of CTI applications and higher SX-2000 sales through the U.S. indirect channel. European and U.S. markets were characterized by intense pricing pressures resulting from competitive conditions which constrained the rate of revenue growth.

## GROSS MARGIN

As a percentage of total revenue, total gross margin was 51 percent in Fiscal 1998, 50 percent in Fiscal 1997 and 49 percent in Fiscal 1996. The product gross margin was 52 percent in Fiscal 1998, equal to Fiscal 1997 and one percentage point higher than in Fiscal 1996. The product gross margin remained stable with the positive impact of higher sales volumes of BCS and semiconductor products offsetting lower average prices in certain BCS products. The service gross margin improved to 37 percent for the year ended March 27, 1998, an improvement of four and one percentage points over Fiscal 1997 and Fiscal 1996, respectively. The service gross margin improvement was due to service call efficiencies and better technician utilization resulting from higher system sales in North America. Fiscal 1996 service gross margin included a benefit from the sale and transfer of certain U.K. maintenance contracts to Bailey Telecom Limited.

## OPERATING EXPENSES

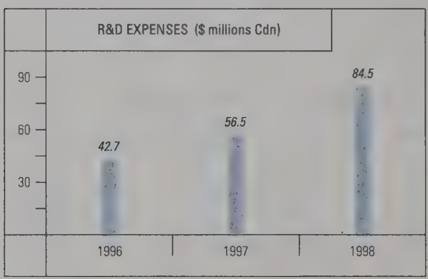
*Selling and Administrative*

Selling and administrative (S&A) expenses in Fiscal 1998 were $231.8, or 26 percent of sales, compared with $208.4, or 30 percent of sales, in Fiscal 1997. In Fiscal 1996, S&A expenses were $172.2, and also 30 percent of sales. S&A expenses decreased as

a percentage of sales primarily due to strong revenue growth, spending restraints applied to marketing programs, higher efficiencies and focus in the sales channels and reduced corporate overhead costs. The improvement was partially offset by the effects of consolidating recently-acquired businesses. The Company acquired the business and assets of Global Village, an ISDN solution provider based in the United Kingdom, during the fourth quarter of Fiscal 1997. The technology business of Gandalf was acquired on August 8, 1997 and Plessey was acquired on February 12, 1998.

Fiscal 1997 S&A expenses increased over Fiscal 1996 primarily due to the inclusion of the results of operations of Mitel Semiconductor AB. In addition, higher costs associated with new marketing initiatives and product launches and increased product support costs contributed to the increase over Fiscal 1996. The marketing-related costs included increased trade show activity, new corporate communications material, course development for dealers and end-customers, and an increase in personnel.

R&D expenses amounted to $84.5, or 10 percent of revenue, for the year ended March 27, 1998. This compares to $56.5 and $42.7, or 8 and 7 percent of revenue, in the respective fiscal years of 1997 and 1996. These amounts are exclusive of related R&D amortization and net of Canadian federal government R&D incentives earned. R&D increased, in part, due to the inclusion of Plessey's results of operations from February 12, 1998 where R&D as a percentage of sales was higher than the Company's average and to other increases in Mitel Semiconductor.




Mitel's R&D program consists of upgrade initiatives for existing products as well as research and development work in emerging technologies including, among others, the following: CTI; multimedia components and applications; networked voice and data; client server telecom; remote access; new ISDN applications; and microelectronic components for real-time applications in the communications, media, and medical industries.

The Company earns ITCs in its Canadian operations. ITCs are credits related to specific qualifying expenditures that are prescribed by Canadian tax legislation. In Mitel's case, these ITCs relate primarily to research and development expenses. The ITCs are recorded only when the enterprise has made the qualifying expenditures, provided there is reasonable assurance that the benefits will be realized. When the ITCs are not accrued in the year in which the qualifying expenditures are made because there is no reasonable assurance that the credits will be realized, such credits are accrued in a subsequent year when reasonable assurance of realization is first obtained.

The Company separately recorded Canadian ITCs related to prior years' R&D amounting to $40.3 in Fiscal 1998, $11.7 in Fiscal 1997, and $7.7 in Fiscal 1996. The ITC accrual was comprised of two components in Fiscal 1998. The first component amounted to $22.3 which related to ITCs that were realized for tax purposes in the same year. The benefit of recording these ITCs was mostly offset by a corresponding increase in tax expense to result in an insignificant impact to net earnings. In the respective comparative periods of Fiscal 1997 and Fiscal 1996, the total ITCs recorded by the Company related to this tax realization principle. The second component of the Fiscal 1998 accrual amounted to $18.0, or $0.17 per share, and related to management's assessment that reasonable assurance exists for accruing the benefit of ITCs expected to be realized for tax purposes in the foreseeable future. The reasonable assurance is derived from management's assessment that there is sufficient evidence of profitability in the near future from operations in which these carryforwards arose.

*Restructuring and Ot*

During the fourth quarter of Fiscal 1997, the Company announced plans to restructure its BCS operations in light of the competitive conditions in the market place and the need to curtail certain non-profitable activities. A total charge of $13.0 was recorded and included a $5.0 write-off of the Company's investment in Tianchi-Mitel Telecommunications Corporation ("TMTC"), the Company's joint venture in China. The remaining $8.0 was provided for severance costs related to BCS operations in North America and the United Kingdom. Focus was also placed on streamlining the distribution channels and reducing corporate expenses. The restructuring also resulted in the decision to curtail further development of the Company's RADICALL product due to insufficient sales made to the Regional Bell Operating Companies and public network operators in the United States.

During the year ended March 27, 1998, restructuring charges amounting to $6.9 were charged to the provision; actions and charges related to the remaining provision of $1.1 will be substantially completed during Fiscal 1999.

*Amortizatio*

Amortization increased in Fiscal 1998 to $50.8 from $33.5 in Fiscal 1997 and $19.2 in Fiscal 1996. The increase is due primarily to the semiconductor capacity expansion capital program in Bromont, replacements and upgrades to the Company's other manufacturing plants, and the inclusion of Plessey's results of operations from February 12, 1998 to March 27, 1998. The increase in Fiscal 1997 over Fiscal 1996 resulted from the Bromont capital program and the inclusion of Mitel Semiconductor AB's results of operations.

### INVESTMENT AND INTEREST INCOME

Investment and interest income was $5.7 for the year ended March 27, 1998 as compared to $9.6 in Fiscal 1997 and $10.0 in Fiscal 1996. The decrease from the prior year was due to a gain realized in Fiscal 1997 from the sale of a non-strategic investment in Esprit Telecom (Jersey) Ltd. Esprit was sold for cash proceeds of $3.7, representing a total gain of $3.6, or $2.4 after-tax. Interest income was otherwise flat between Fiscal 1998 and Fiscal 1997 due to stable cash balances, but less than in Fiscal 1996 due to lower interest rates.

### INTEREST EXPENSE

Interest expense was $7.7 for Fiscal 1998 compared to $2.4 and $1.7 for Fiscal 1997 and Fiscal 1996, respectively. The increase in interest expense over prior years resulted from an increase in the Company's capital leases and from interest on the term loan indebtedness incurred by the Company on February 12, 1998 in connection with the Plessey acquisition. Interest expense also includes the proportionate amortization of capitalized debt issue costs associated with the term loans. The unamortized balance of $10.6 in debt issue costs is included in other intangible capital assets on the balance sheet.

### INCOME TAXES

Income tax expense for Fiscal 1998 was $30.5 compared to $20.6 and $15.0 for Fiscal 1997 and Fiscal 1996, respectively. Before accounting for the ITCs, income tax expense for Fiscal 1998 was $8.2 compared to $8.9 and $7.3 in Fiscal 1997 and Fiscal 1996, respectively. The effective income tax rate, before accounting for the ITCs and as a percentage of pre-tax income, was 8 percent, 16 percent and 13 percent in Fiscal 1998, Fiscal 1997 and Fiscal 1996, respectively. The lower effective tax rate through Fiscal 1998 was due to a lower U.K. group tax position, partially offset by higher provincial income taxes in Canada. The Fiscal 1997 effective tax rate was higher than in Fiscal 1996 due to the sale of an investment in Esprit.

Management periodically reviews the virtual certainty or reasonable assurance, as applicable, of realizing the loss and ITC carryforward and timing difference benefits in the determination of their accounting recognition. Such review may result in the recording of the accounting benefit for these timing differences and investment tax credit carryforwards, as the circumstances warrant, and the recognition of loss carryforwards, as realized. Management believes there is sufficient evidence of expected profitability from the

Company's Canadian operations in the foreseeable future to provide reasonable assurance for accruing a future benefit of $18.0 related to ITCs. The accounting for the ITCs is more fully described in the investment tax credit section of this management's discussion and analysis.

The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer systems and products that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

Management has formed a Year 2000 Compliance Project and Program Office to establish and ensure Mitel's compliance with what is commonly known as the "Year 2000 problem". In addition, consultants were engaged to assist with a comprehensive review of the Company's state of readiness and to assist with any necessary remedial plans for the Year 2000 date change. This review encompassed supporting information technology systems, product lines, and business supply chain systems and infrastructure. Management presently believes that with modifications to the Company's existing software and conversions to new software, the Year 2000 problem can be mitigated. However, if such modifications and conversions are not made, or are not completed on a timely basis, the Year 2000 problem could have a material adverse effect on the Company's business, financial condition and results of operations. Management further believes that the cost of either repairing or replacing certain business systems to ensure business continuance beyond Year 2000 should not have a significant impact on the results of operations. Other than seeking representations and assurances, the Company has not made an assessment as to whether any of its customers, suppliers or service providers will be affected by the date change. The Company's business, financial condition and results of operations may be adversely impacted should the Company's customers', suppliers' or service providers' efforts to address the Year 2000 issue prove to be inadequate.

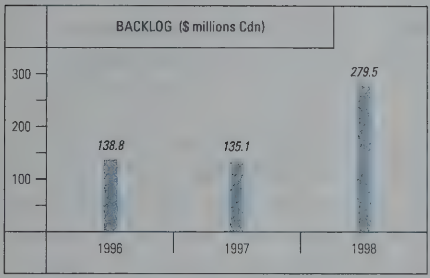
The Asia Pacific region encountered unstable local economies and significant devaluation in its currencies during Fiscal 1998. This region represented 11 percent of the Company's revenue for the year ended March 27, 1998 and 10 percent of revenue in Fiscal 1997. The majority of the Asia Pacific sales relate to semiconductor operations which have continued to grow in Fiscal 1998. Asia Pacific receivables, net of reserves, were approximately 1 percent of the Company's total assets at March 27, 1998. To the extent the Asia Pacific region grows in importance to the Company, or that the factors affecting the region begin to adversely affect customers in other geographic locations, the Company's business, operating results and financial condition could be adversely affected.

Management periodically evaluates the financial and operational independence of its foreign operations and the resulting accounting classification of the foreign subsidiaries as self-sustaining enterprises. Should a foreign subsidiary cease to be classified as self-sustaining, then translation gains or losses on consolidating the foreign subsidiary's financial statements would be charged to operating income instead of a separate component of shareholders' equity.

The Company manages foreign currency risk by protecting the estimated future currency cash flows of each operating division, and certain significant transactions, from adverse foreign exchange fluctuations. The Company does not engage in a trading or speculative hedging program. Interest rate risk is managed by entering into interest rate swap contracts.

The Company believes that inflation has not had a material impact on revenues and costs during the last three fiscal years.

## BACKLOG




As orders are frequently booked and shipped within the same fiscal month, order backlog is not necessarily indicative of a sales outlook for the month, quarter, or year. This is most true for the Company's business communications systems since manufacturing lead times for semiconductor products are generally longer because of the nature of the production process. At March 27, 1998, order backlog was $279.5 compared to $135.1 at March 28, 1997. The increase in backlog was mostly attributable to the acquisition of Plessey in the fourth quarter and to increased BCS bookings. Most of the backlog is scheduled for delivery in the next twelve months.

The decrease in backlog at the end of Fiscal 1997 was mainly due to the sale of the thermal print head business in the third quarter of that year.

## LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and short-term investment balances of $151.7 at March 27, 1998 compared to $143.3 at March 28, 1997. The increase of $8.4 was mainly due to cash flow provided by operations partially offset by the acquisition of Gandalf and fixed asset additions during the year. The acquisition of Plessey was financed by means of senior secured credit facilities. With the consolidation of Plessey, the Company's balance sheet reflected a significant increase in total assets from $584.8 at the end of Fiscal 1997 to $1,237.7 at the end of Fiscal 1998.

Cash flow provided by operations amounted to $75.4 during Fiscal 1998 compared to $66.1 in Fiscal 1997. Since March 28, 1997, the Company's working capital, as reflected in the consolidated statements of cash flows, increased by $50.2 primarily due to increased accounts receivables on higher fourth quarter BCS sales and to higher inventory levels necessary to support the growth in the business. The Company maintains a minimum of critical inventory to ensure continuity of supply for its manufacturing requirements. Most of the security supply inventory is carried at the Company's semiconductor plants.

Fixed asset additions were $53.6 during Fiscal 1998. The additions were primarily related to semiconductor manufacturing capacity and technology enhancements as well as continuing improvements to the Company's information technology resources. The Bromont semiconductor capacity expansion program is comprised of two phases as described earlier in this management's discussion and analysis. Phase one, which was substantially completed in the second quarter of Fiscal 1998, cost approximately $8.6. The total cost of phase two is expected to be $44.2. At the end of Fiscal 1998, approximately $38.8 was spent on the phase two project. Management expects that Fiscal 1999 capital expenditures will increase due to normal capital replacement programs and to the effect of consolidating recently acquired operations for a full fiscal year.

Other capital assets increased in Fiscal 1998 primarily due to the acquisition of Gandalf on August 8, 1997. Purchased R&D and other intangible assets totaling $14.9 was recorded for the excess of the purchase price over the fair value of the assets acquired. The purchased intangible assets will be amortized over a period of ten years. In addition, other capital assets increased due to the deferral of debt issue costs of $10.9 which were incurred with the financing of the Plessey acquisition. These costs will be amortized over the life of the related debt which ranges from 5 to 6 years.

During Fiscal 1998, certain land in Kanata previously held for resale with a carrying value of $1.5 was reclassified to fixed assets. Management intends to hold the land to meet future requirements. On June 27, 1997, the Company sold the Boca Raton facility which was previously held as an asset for resale. The proceeds from the sale, which amounted to $6.6, were used to retire the Florida industrial revenue and development bonds (IRBs) of $4.1, for which the facility was pledged as security.

Total long-term debt, net of repayments, increased by $362.1 from the end of Fiscal 1997 due to two senior secured term loan facilities used to finance the Plessey acquisition and which together amounted to U.S.$235.0. In addition, the Company continued to finance a portion of its fixed asset additions through capital leases. These increases were partially offset by the repayment of the Florida IRBs on July 3, 1997.

The two term loans, respectively the AXELs[SM*] Series B loan and the Tranche A Term Loan, were entered into with a syndicate of banks led by Goldman, Sachs Credit Partners L.P. as the syndication agent and the Canadian Imperial Bank of Commerce acting as the administrative agent. The AXELs Series B loan will be repaid quarterly on a nominal basis with 95 percent of the original amount of U.S.$150.0 due on December 2003. The Tranche A Term Loan will be repaid quarterly on a graduated basis over five years and matures on February 2003. The term loans are at a variable interest rate based on the lower of a defined base rate or the London Inter Bank Offer Rate (LIBOR) plus a premium. The Company entered into an interest rate swap prior to year-end to fix the base interest rate on a portion of each of the term loans. The interest rate swap is considered to be an effective hedge of the variable interest rates on the term loans. The Company is subject to certain restrictive covenants and commitments and is required to maintain certain financial ratios for the purpose of ensuring the Company's ability to meet its obligations under the credit agreement. The Company is subject to certain mandatory prepayments in the event of asset sales (other than inventory), equity offerings and debt issuances, certain insurance proceeds, and defined excess cash flow. Mandatory prepayments range from 75 percent to 100 percent of the net cash proceeds and would be paid on a pro-rata basis toward the senior secured term loans. Management believes the Company is in compliance with the obligations and restrictive covenants under the credit agreement.

The pension liability of $12.2 relates to the unfunded pension obligation in Mitel Semiconductor AB. Under applicable Swedish law, companies are not required to fund the pension obligation, but instead operate on a "pay as you go" basis. The pension obligation is actuarially determined in accordance with applicable laws and regulations in Sweden and is fully insured by a Swedish regulatory agency.

As at March 27, 1998, the Company's capitalization was comprised of 49 percent debt, 4 percent preferred equity, and 47 percent common equity. This compares to 17 percent debt, 9 percent preferred equity, and 74 percent common equity at the end of Fiscal 1997.

In addition to cash and short-term investment balances of $151.7 as at March 27, 1998, the Company has an unused revolving credit facility of approximately $97.3 (U.S.$68.8). In accordance with Company policy, short-term investment balances are primarily comprised of high-grade money market instruments with original maturity dates of less than one year.

Management believes the Company is in a position to meet all foreseeable business cash requirements and debt service from its cash balances on hand, existing financing facilities and cash flow from operations.

[SM*] *AXEL is a registered servicemark of Goldman, Sachs & Co.*
*M Mitel (design) Mitel, SX-200, SX-2000 and GX5000 are registered.*

## Management responsibility for consolidated financial statements

Management of Mitel Corporation is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with appropriately selected accounting principles generally accepted in Canada. Their preparation necessarily involves the use of management's best estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through a program of internal audits, careful selection and training of personnel, and the adoption and communication of financial and other relevant policies, including a code of business conduct.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee which is composed solely of directors who are neither officers nor employees of the Company. This committee meets quarterly with management, the Company's internal auditors, and the Company's independent auditors to review performance and to discuss audit, internal control, accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by Ernst & Young, who were appointed by the shareholders at the Annual General Meeting. Their report is presented on the following page.

Dr. John B. Millard
PRESIDENT & CHIEF EXECUTIVE OFFICER

Jean-Jacques Carrier
VICE PRESIDENT OF FINANCE & CHIEF FINANCIAL OFFICER

# Auditors' Report

To the Shareholders of Mitel Corporation:

We have audited the consolidated balance sheets of Mitel Corporation as at March 27, 1998 and March 28, 1997 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three year period ended March 27, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 27, 1998 and March 28, 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 27, 1998 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Ernst & Young
CHARTERED ACCOUNTANTS

OTTAWA, CANADA
MAY 7, 1998

## Mitel Corporation *(incorporated under the laws of Canada)*
## Consolidated balance sheets

| *(in millions of Canadian dollars)* | *March 27, 1998* | *March 28, 1997* |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and short-term investments *(Note 3)* | **$ 151.7** | $ 143.3 |
| Accounts receivable *(Notes 4 & 20)* | **288.0** | 156.7 |
| Inventories *(Note 5)* | **162.2** | 83.1 |
| Prepaid expenses | **19.8** | 4.2 |
| Investment tax credits recoverable *(Note 14)* | **7.5** | – |
| | **629.2** | 387.3 |
| Capital assets: | | |
| Fixed assets *(Notes 6 & 9)* | **549.3** | 183.7 |
| Other assets *(Notes 7 & 9)* | **59.2** | 13.8 |
| | **$ 1,237.7** | $ 584.8 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities *(Note 8)* | **$ 290.7** | $ 124.3 |
| Income and other taxes payable | **19.6** | 15.7 |
| Deferred revenue | **32.7** | 26.2 |
| Current portion of long-term debt *(Note 9)* | **40.3** | 14.8 |
| | **383.3** | 181.0 |
| Long-term debt *(Note 9)* | **379.6** | 43.0 |
| Pension liability *(Note 23)* | **12.2** | 11.3 |
| Deferred income taxes | **27.1** | 10.0 |
| | **802.2** | 245.3 |
| Commitments and contingencies *(Notes 10 & 11)* | | |
| Shareholders' equity: | | |
| Capital stock *(Note 12)* | | |
| Preferred shares | **37.2** | 37.2 |
| Common shares *(1998–108,394,631; 1997–107,414,631)* | **157.3** | 153.3 |
| Contributed surplus *(Note 12)* | **32.3** | 32.3 |
| Retained earnings 398.3 | **202.9** | 114.2 |
| Translation account *(Note 13)* | **5.8** | 2.5 |
| OK | **435.5** | 339.5 |
| | **$ 1,237.7** | $ 584.8 |

*(See accompanying notes to the consolidated financial statements)*

On behalf of the Board:

Dr. Henry Simon, DIRECTOR

Dr. John B. Millard, DIRECTOR

## Mitel Corporation
## Consolidated statements of income and retained earnings

| *(in millions of Canadian dollars, except per share amounts)* | March 27, 1998 | March 28, 1997 | Years ended March 29, 1996 |
|---|---|---|---|
| Revenue: | | | |
| Products | **$ 806.5** | $ 625.0 | $ 504.8 |
| Service | **82.0** | 70.5 | 71.6 |
| | **888.5** | 695.5 | 576.4 |
| Cost of sales (excluding amortization): | | | |
| Products | **385.9** | 297.4 | 246.7 |
| Service | **51.4** | 47.0 | 45.6 |
| | **437.3** | 344.4 | 292.3 |
| Gross margin | **451.2** | 351.1 | 284.1 |
| Expenses: | | | |
| Selling and administrative | **231.8** | 208.4 | 172.2 |
| Research and development *(Note 14)* | **84.5** | 56.5 | 42.7 |
| Investment tax credits related to prior years' research and development *(Note 14)* | **(40.3)** | (11.7) | (7.7) |
| Restructuring and other charges *(Note 15)* | **–** | 13.0 | – |
| Amortization | **50.8** | 33.5 | 19.2 |
| | **326.8** | 299.7 | 226.4 |
| Operating income | **124.4** | 51.4 | 57.7 |
| Investment and interest income *(Note 16)* | **5.7** | 9.6 | 10.0 |
| Interest expense *(Note 9)* | **(7.7)** | (2.4) | (1.7) |
| Income before income taxes | **122.4** | 58.6 | 66.0 |
| Income tax expense *(Note 17)* | **30.5** | 20.6 | 15.0 |
| Net income | **91.9** | 38.0 | 51.0 |
| Retained earnings, beginning of year | **114.2** | 79.4 | 31.7 |
| | **206.1** | 117.4 | 82.7 |
| Dividends on preferred shares | **3.2** | 3.2 | 3.3 |
| Retained earnings, end of year | **$ 202.9** | $ 114.2 | $ 79.4 |
| Net income attributable to common shareholders after preferred share dividends | **$ 88.7** | $ 34.8 | $ 47.7 |
| Net income per common share *(Note 18)*: | | | |
| Basic | **$ 0.82** | $ 0.32 | $ 0.45 |
| Fully diluted | **$ 0.80** | $ 0.32 | $ 0.44 |

*(See accompanying notes to the consolidated financial statements)*

## Mitel Corporation
## Consolidated statements of cash flows

| (in millions of Canadian dollars) | March 27, 1998 | March 28, 1997 | Years ended March 29, 1996 |
|---|---|---|---|
| **CASH PROVIDED BY (USED IN)** | | | |
| Operating activities: | | | |
| Net income | **$ 91.9** | $ 38.0 | $ 51.0 |
| Restructuring and other charges | **–** | 5.3 | – |
| Amortization | **50.8** | 33.5 | 19.2 |
| Investment tax credits | **(18.0)** | – | – |
| Loss (gain) on sale of capital assets | **(0.7)** | (4.5) | 0.2 |
| Deferred income taxes | **0.6** | (0.2) | 0.1 |
| Change in pension liability | **1.0** | 0.6 | – |
| Increase in working capital *(Note 25)* | **(50.2)** | (6.6) | (0.1) |
| Total | **75.4** | 66.1 | 70.4 |
| Investing activities: | | | |
| Additions to capital assets | **(59.2)** | (73.9) | (34.5) |
| Proceeds from disposal of capital assets | **7.2** | 5.0 | 0.2 |
| Acquisitions *(Note 19)* | **(343.8)** | (5.1) | (43.5) |
| Net change in non-cash balances related to investing activities | **(0.2)** | 5.4 | 1.0 |
| Total | **(396.0)** | (68.6) | (76.8) |
| Financing activities: | | | |
| Increase in long-term debt | **364.3** | 40.7 | 18.2 |
| Repayment of long-term debt | **(26.7)** | (34.1) | (10.4) |
| Debt issue costs | **(10.9)** | – | – |
| Repurchase and redemption of preferred shares *(Note 12)* | **–** | – | (1.5) |
| Dividends on preferred shares | **(3.2)** | (3.2) | (3.3) |
| Issue of common shares *(Note 12)* | **4.0** | 2.7 | 0.9 |
| Net change in non-cash balances related to financing activities | **–** | 0.8 | – |
| Total | **327.5** | 6.9 | 3.9 |
| Effect of currency translation on cash | **1.5** | 1.6 | (1.8) |
| Increase (decrease) in cash and short-term investments | **8.4** | 6.0 | (4.3) |
| Cash and short-term investments, beginning of year | **143.3** | 137.3 | 141.6 |
| Cash and short-term investments, end of year | **$ 151.7** | $ 143.3 | $ 137.3 |

*(See accompanying notes to the consolidated financial statements)*

Notes to the consolidated financial statements *(in millions of Canadian dollars, except per share amounts)*

ATIONS

Mitel is an international communications products supplier. The Company's principal line of business is the manufacture and distribution of communications microelectronic components, sub-systems, and systems, and to a lesser degree, based on revenue, the Company provides support services in respect of products sold. The principal markets for the Company's products are the United States, Europe, Canada and the Asia Pacific region.

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. A reconciliation of amounts presented in accordance with United States accounting principles is detailed in Note 22.

The preparation of financial statements in conformity with Canadian and United States accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

The Company's fiscal year end is the last Friday in March.

The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiary companies. Investments in associated companies, except for joint ventures, in which the Company has significant influence are accounted for by the equity method. Investments in joint ventures are accounted for by the proportionate consolidation method.

Cash and short-term investments are valued at the lower of cost or market value. The Company invests its excess cash in highly liquid low risk debt instruments with terms of usually not greater than one year.

*(D) Inventories*

Inventories are valued at the lower of average cost and net realizable value for work-in-process and finished goods, and current replacement cost for raw materials. The cost of inventories includes material, labour and manufacturing overhead.

*(E) Capital Assets*

Capital assets are initially recorded at cost, net of related research and development and other government assistance. Goodwill is initially recorded at the excess of the Company's cost over the amount of the fair value of the net assets acquired in a business combination. The Company evaluates the realizability of these assets based upon the expected future undiscounted cash flows of the related assets.

Amortization is provided on the bases and at the rates set out below:

| Assets | Basis | Rate |
|---|---|---|
| Buildings | Straight-line | 4% |
| Equipment | Declining balance | 20-30% |
| | Straight-line | 10-33.3% |
| Patents and trademarks | Straight-line | 10-33.3% |
| Goodwill | Straight-line | 6.7-20% |
| Purchased research and development ("R&D") | Straight-line | 10-20% |
| Deferred debt issue costs | Straight-line | 18% |

*(F) Foreign Currency Translation*

The Company uses the current rate method of foreign currency translation to translate the accounts of its foreign subsidiaries. The resulting unrealized gains or losses are deferred and included in shareholders' equity until there is a reduction in the net investment in a foreign operation.

Exchange gains or losses related to translation of, or settlement of, foreign currency denominated long-term monetary items are deferred and amortized on a straight-line basis over the remaining life of the items.

### *(G) Derivative Financial Instruments*

The Company enters into foreign exchange contracts intended to hedge its estimated net foreign currency cash requirements, and certain significant transactions, generally over the ensuing twelve to eighteen months. The Company does not engage in a trading or speculative hedging program. All foreign exchange contracts are marked to market and the resulting gains and losses are deferred and included in the measurement of the related transactions when they occur.

The Company uses interest rate swap contracts to manage interest rate risk. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on a basis that matches them with the related fluctuations in the interest receipts and payments under floating rate financial assets and liabilities.

### *(H) Revenue Recognition*

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of communications systems including integration and installation services, is recognized on a percentage of completion basis. Revenue from service is recognized at the time services are rendered. Billings in advance of services are included in deferred revenue. Estimated warranty costs associated with these revenues are provided for at the time of the sale.

### *(I) Income Taxes*

Income taxes are accounted for using the deferred tax allocation method under which the income tax provision is based on the income reported in the accounts. Investment tax credits ("ITC") are taken into income on the same basis as the related expenditures are charged to income provided the Company expects the credits to be realized. Management periodically reviews the virtual certainty or reasonable assurance, as applicable, of realizing the loss and ITC carryforward and timing difference benefits in the determination of their accounting recognition. Such review may result in the recording of the accounting benefit for these timing differences and ITC carryforwards, as the circumstances warrant, and the recognition of loss carryforwards, as realized.

### *(J) Development Costs*

The Company interprets the criteria for deferral of development costs on a very stringent basis under which few, if any, costs qualify for deferment. In the three years ended March 27, 1998, all development costs, except development costs purchased in a business combination, were expensed as incurred. Development costs purchased in a business combination are capitalized and amortized over the remaining useful life of the technology to which they relate. Management periodically evaluates the realizability of the purchased development costs based upon the expected future undiscounted cash flows of the related assets.

## 3. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments are carried at cost, which approximates fair value. As at March 27, 1998, the Company had $99.3 (1997–$116.9) invested in short-term investments with maturity dates between March 30, 1998 and April 30, 1998 at rates of return extending from 3.78 percent to 6.875 percent.

## 4. ACCOUNTS RECEIVABLE

Included in accounts receivable was an allowance for doubtful accounts of $10.2 (1997–$9.8). Also included in accounts receivable was an amount of $32.5 (1997–$16.6) for unbilled accounts on long-term contracts. The Company is exposed to normal credit risk from customers. However, the Company's orientation is global with a large number of diverse customers to minimize concentrations of credit risk. *(See also Note 20.)*

## 5. INVENTORIES

| | 1998 | 1997 |
|---|---|---|
| Raw materials | **$ 53.4** | $ 29.4 |
| Work-in-process | **60.3** | 26.9 |
| Finished goods | **48.5** | 26.8 |
| | **$ 162.2** | $ 83.1 |

| | 1998 | 1997 |
|---|---|---|
| Cost: | | |
| Land | **$ 13.2** | $ 6.0 |
| Buildings | **173.5** | 127.6 |
| Equipment | **514.4** | 207.8 |
| Equipment under capital leases | **130.1** | 79.9 |
| | **831.2** | 421.3 |
| Less accumulated amortization: | | |
| Buildings | **71.0** | 65.7 |
| Equipment | **175.7** | 148.6 |
| Equipment under capital leases | **35.2** | 23.3 |
| | **281.9** | 237.6 |
| | **$ 549.3** | $ 183.7 |

| | 1998 | 1997 |
|---|---|---|
| Cost: | | |
| Patents, trademarks, and other | **$ 21.3** | $ 10.6 |
| Other intangible assets | **27.6** | 4.7 |
| Investment tax credits recoverable | **10.5** | – |
| Assets held for resale | **–** | 5.9 |
| Promissory note, at a rate of 10%, due in March 2011 and against which a first deed on a property was pledged as security. | **10.3** | – |
| | **69.7** | 21.2 |
| Less accumulated amortization: | | |
| Patents, trademarks, and other | **7.2** | 6.0 |
| Other intangible assets | **3.3** | 1.4 |
| | **10.5** | 7.4 |
| | **$ 59.2** | $ 13.8 |

a) On June 27, 1997, the Company sold the Boca Raton facility which was held as an asset for resale at March 28, 1997. The Company realized a gain and other income of $1.8.

b) On August 8, 1997, the Company purchased completed and in-process research and development (R&D) trademarks and a trade name, amounting to $14.9 in connection with the purchase of the assets and technology of Gandalf Technologies Inc. *(see also Note 19)*. The purchased intangible assets will be amortized over a period of ten years.

c) On February 12, 1998, the Company entered into a credit agreement with a syndicate of lenders for total debt facilities of U.S. $310.0 *(see also Note 9)*. The facilities were used to acquire the Plessey Semiconductors Group ("Plessey") *(see also Note 19)* as well as to provide a line of credit for general corporate purposes. The Company incurred $10.9 in respect of associated debt issue costs. These costs were deferred and will be amortized over the life of the debt.

d) The fair value of the promissory note approximates its carrying value.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 1998 | 1997 |
|---|---|---|
| Trade payables | **$ 82.2** | $ 39.6 |
| Restructuring and other provisions | **59.3** | 12.6 |
| Employee-related payables | **36.4** | 22.8 |
| Other accrued liabilities | **112.8** | 49.3 |
| | **$ 290.7** | $ 124.3 |

## 9. LONG-TERM DEBT

| | 1998 | 1997 |
|---|---|---|
| AXELs Series B, at a variable interest rate based on the lower of a defined base rate or a successive three month LIBOR rate plus 2.25%; at March 27, 1998 the effective interest rate was 8.25%; with quarterly installments beginning June 1998 and due December 2003. *(1998–U.S. $150.0; 1997–U.S. $nil)* | **$ 211.9** | $ – |
| Tranche A Term Loan, at a variable interest rate based on the lower of a defined base rate or a successive three month LIBOR rate plus 2.0%; at March 27, 1998 the effective interest rate was 8.00%; with quarterly installments beginning June 1998 and due February 2003. *(1998–U.S. $85.0; 1997–U.S. $nil)* | **119.7** | – |
| Capital leases and other, at rates varying from 3.4% to 12.2% with payment terms ranging from 3 to 5 years | **84.5** | 51.6 |
| Non-interest bearing 1996 Canada-Quebec government loan, repayable in three equal annual installments commencing July, 2001 | **3.8** | 2.1 |
| Florida industrial revenue and development bonds, at a rate of 8.375%, repaid during Fiscal 1998 *(1997–U.S. $3.0)* | **–** | 4.1 |
| | **419.9** | 57.8 |
| Less current portion | **40.3** | 14.8 |
| | **$ 379.6** | $ 43.0 |

During Fiscal 1998, the Company entered into a credit agreement in the amount of U.S. $310.0 with Goldman Sachs Credit Partners L.P. ("GSCP"), as advisor, arranger, lender, and syndication agent; certain financial institutions as lenders; and the Canadian Imperial Bank of Commerce ("CIBC"), as lender and administrative agent for the lenders. The credit agreement provided senior secured credit facilities consisting of: (i) a 5 year Tranche A Term Loan amounting to U.S.$85.0; (ii) a 6 year Amortization Extended Term Loan (AXELs) Series B loan amounting to U.S.$150.0; and (iii) a 5 year revolving credit facility amounting to U.S.$75.0 that was unused at March 27, 1998, except for drawn letters of credit amounting to U.S.$6.2, and was otherwise available for general corporate purposes. The proceeds from the term loans were used to fund the acquisition of 100 percent of the capital stock of four affiliated entities which, together with their respective subsidiaries, comprise Plessey *(see also Note 19).*

The Company entered into an interest rate swap on March 12, 1998 to fix the interest on a portion of the AXELs Series B loan and the Tranche A Term Loan for a notional amount of $224.5 (U.S.$157.0). The base interest rate was fixed at 5.79% and the contract matures on March 2001. This interest rate swap is considered to be an effective hedge of the variable interest rate on the term loans. The Company is exposed to credit risk in the event of non-performance, but does not anticipate non-performance by the counter party.

To secure the credit agreement obligations, the Company granted to the lenders a first priority lien on substantially all of its personal property and certain of its real property, including a pledge of all of the capital stock of each of its principal subsidiaries. Certain restrictive covenants and financial ratios required to be maintained are set out for the purpose of measuring the Company's ability to meet its obligations under the credit agreement. The Company is subject to certain mandatory prepayments in the event of asset sales (other than inventory), equity offerings and debt issuances, certain insurance proceeds, and defined excess cash flow. Mandatory prepayments range from 75 percent to 100 percent of the net cash proceeds and would be paid on a pro-rata basis toward the senior secured term loans. The Company believes it is in compliance with the obligations and restrictive covenants under the credit agreement.

Future minimum lease payments of the obligations under capital leases total $95.7 of which $27.5, $23.5, $19.5, $16.3, and $8.9 relate to fiscal years 1999 to 2003 and beyond respectively. Interest costs of $11.7 are included in the total future lease payments.

Scheduled principal repayments, excluding obligations under capital leases, during the next five fiscal years are: 1999–$16.4; 2000 –$24.8;2001–$26.2; 2002–$30.8; 2003–$84.0. Interest expense related to long-term debt was $7.6 in Fiscal 1998 (1997–$2.3; 1996–$1.7).

The following table presents financial instrument fair value disclosure where the carrying value of such is different. Fair value was determined by discounting cash flows of the obligations at 7.0 percent (1997–7.0 percent), the rate determined as generally available to the Company on credit facilities at the fiscal year-end.

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Capital leases and other | **$ 84.5** | **$ 83.8** | $ 51.6 | $ 52.0 |
| Florida industrial revenue and development bonds | **$ –** | **$ –** | $ 4.1 | $ 4.3 |
| Non-interest bearing 1996 Canada-Quebec government loan | **$ 3.8** | **$ 3.0** | $ 2.1 | $ 1.5 |

The future minimum lease payments for operating leases for which the Company was committed were as follows: 1999–$19.0; 2000–$14.6; 2001–$11.0; 2002–$5.5; 2003–$5.1; 2004 and beyond–$27.9.

The Company had letters of credit outstanding as at March 27, 1998 of approximately $25.2 to secure accounts payable primarily relating to the purchase of inventory.

Capital expenditure commitments under purchase orders outstanding at the end of Fiscal 1998 amounted to approximately $5.9.

The Company is a defendant in a number of lawsuits and party to a number of other claims or potential claims that have arisen in the normal course of its business. In the opinion of the Company's legal counsel, any monetary liability or financial impact of such lawsuits and claims or potential claims to which the Company might be subject after final adjudication would not be material to the consolidated financial position of the Company or the consolidated results of its operations. *(See also Note 14.)*

## 12. CAPITAL STOCK

The Company's authorized capital stock consists of an unlimited number of preferred and common shares.

| Shares outstanding | 1998 | 1997 |
|---|---|---|
| Preferred shares – R&D series | **1,616,500** | 1,616,500 |
| Common shares | **108,394,631** | 107,414,631 |

*(A) Preferred shares – R&D Series*

The preferred shares were issued in Fiscal 1984 for gross cash proceeds of $95.2 of which $51.5 ($23.00 per share) was allocated to capital stock with the balance being the consideration received for the sale of tax rights.

*Dividends* – Fixed cumulative cash dividends are payable quarterly at a rate of $2.00 per share per annum.

*Redemption* – The shares are currently redeemable, at the option of the Company, at $25.00 per share plus accrued dividends.

*Purchase Obligation* – Commencing January 1, 1989, the Company was required to make reasonable efforts to purchase 22,400 shares in each calendar quarter at a price not exceeding $25.00 per share plus costs of purchase, and this obligation has been met. The difference between the stated capital of the repurchased shares over the consideration paid for such shares is recorded against contributed surplus.

*(B) Common Shares*

An analysis of the changes in the number of common shares and the amount of share capital for the three years ended March 27, 1998 is as follows:

| | Number | Amount |
|---|---|---|
| Balance, March 31, 1995 | 105,776,618 | $ 149.7 |
| Employee stock option plans | 307,876 | 0.9 |
| Balance, March 29, 1996 | 106,084,494 | 150.6 |
| Warrants | 1,000,000 | 1.7 |
| Employee stock option plans | 330,137 | 1.0 |
| Balance, March 28, 1997 | 107,414,631 | 153.3 |
| Employee stock option plans | 980,000 | 4.0 |
| Balance, March 27, 1998 | 108,394,631 | $ 157.3 |

The warrants exercised in Fiscal 1997 represent all of the warrants then outstanding to reduce outstanding warrants to nil as at March 27, 1998 (1997–nil; 1996–1,000,000).

*(C) Dividend Restrictions on Common Shares*

The Company may not declare cash dividends on its common shares unless dividends on the preferred shares have been declared and paid, or set aside for payment.

Pursuant to the terms of the credit agreement described in Note 9, the Company is required to maintain a minimum net worth, thereby limiting the amount of dividends that could be paid out. The preferred shares dividend does not violate this covenant. No common share dividend is currently being paid out.

At the Company's 1991 Annual General Meeting, the shareholders approved resolutions authorizing stock options for key employees and non-employee directors. Certain amendments to the plan were approved by the shareholders at the 1993 and 1995 Annual General Meetings allowing for 1,000,000 and 2,000,000 additional shares, respectively, to be made available for grant. The Company has contingently granted 3,123,250 additional shares subject to approval by the shareholders at the 1998 Annual General Meeting. Available for grant at March 27, 1998 were 243,525 (1997–1,113,525; 1996–1,779,775) shares. All options granted have up to maximum ten year terms and become fully exercisable at the end of four years of continuous employment.

A summary of the Company's stock option activity and related information for the two years ended March 27, 1998 is as follows:

| | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|
| | Options | Weighted average exercise price | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Outstanding options: | | | | | | |
| Balance, beginning of year | **3,238,638** | **$ 5.71** | 2,902,525 | $ 4.54 | 2,721,551 | $ 3.74 |
| Granted | **4,237,750** | **$ 15.19** | 713,500 | $ 9.23 | 610,500 | $ 7.52 |
| Exercised | **(980,000)** | **$ 4.12** | (330,137) | $ 2.95 | (307,876) | $ 2.97 |
| Cancelled | **(244,500)** | **$ 7.87** | (47,250) | $ 6.06 | (121,650) | $ 5.62 |
| Balance, end of year | **6,251,888** | **$ 12.30** | 3,238,638 | $ 5.71 | 2,902,525 | $ 4.54 |
| Exercisable, end of year | **1,303,407** | **$ 5.18** | 1,580,776 | $ 3.75 | 1,229,775 | $ 2.95 |
| Weighted average fair value price of options granted during the year using the Black-Scholes fair value option pricing model *(See also Note 22.)* | | **$ 8.07** | | $ 4.54 | | $ 3.90 |

A summary of options outstanding at March 27, 1998 is as follows:

| | | | Total outstanding | Total exercisable | |
|---|---|---|---|---|---|
| *Options* | *Exercise price* | *Weighted average exercise price* | *Weighted average remaining contractual life* | *Options* | *Weighted average exercise price* |
| 425,925 | $1.10-$2.82 | $ 2.01 | 5 years | 425,925 | $ 2.01 |
| 457,700 | $3.90-$5.75 | $ 5.12 | 6 years | 345,775 | $ 5.11 |
| 1,140,513 | $6.25-$9.32 | $ 8.25 | 7 years | 531,707 | $ 7.77 |
| 4,227,750 | $7.12-$17.78 | $ 15.21 | 7 years | – | – |
| 6,251,888 | | | | 1,303,407 | |

The following table summarizes changes in the translation account:

| | *1998* | *1997* | *1996* |
|---|---|---|---|
| Balance, beginning of year | **$ 2.5** | $ 3.3 | $ 10.6 |
| Increase (decrease): | | | |
| Movements in exchange rates – | | | |
| U.K. pound sterling | **7.2** | 5.4 | (6.0) |
| U.S. dollar | **(2.1)** | – | (1.4) |
| Swedish krona | **(1.0)** | (4.4) | – |
| Other currencies | **(1.0)** | – | 0.1 |
| Reduction of net investments in subsidiaries | **0.2** | (1.8) | – |
| Balance, end of year | **$ 5.8** | $ 2.5 | $ 3.3 |

## 14. GOVERNMENT ASSISTANCE AND INVESTMENT TAX CREDITS

During the year, the Company recognized Canadian ITCs of $40.3 (1997–$11.7; 1996–$7.7) related to prior years' R&D expenses for which no accounting benefit was previously recognized. *(See also Note 17.)*

The Canadian ITCs were comprised of two components:

1) The recognition of ITCs in Fiscal 1998 for which management believes there is sufficient evidence of expected profitability from operations in the foreseeable future to provide reasonable assurance for accruing a future benefit related to ITCs, amounting to $18.0; (1997–$nil; 1996–$nil).

2) ITCs realized for tax purposes in the amount of $22.3 (1997 –$11.7; 1996–$7.7). The benefit of recording these ITCs was mostly offset by a corresponding increase in tax expense to result in an insignificant impact to net earnings.

During the year, the Company also recognized total funding of $0.1 (1997–$0.2; 1996–$0.3) related to eligible R&D expenditures (1998–$0.1; 1997–$0.6; 1996–$1.0) and an additional government grant of $0.3 which was recorded as a reduction primarily of R&D expenses in the consolidated statements of income. Contributions of $5.0 made to the Company in prior years under the Microelectronics and System Development Program, a federal assistance program, are contingently repayable if the resulting technology is commercially successful. The contributions are repayable based on a percentage of related sales over a period not to exceed ten years and ending on June 30, 2004. Any amount unpaid at the end of the ten year period would be forgiven. The total amounts repaid and repayable to March 27, 1998 were negligible.

## 15. RESTRUCTURING AND OTHER CHARGES

During the fourth quarter of Fiscal 1997, the Company recorded a charge of $13.0 comprising $8.0 in respect of a restructuring program to reduce operating expenses in Business Communications Systems and a write-off of $5.0 on the investment and related assets in the Company's joint venture in China. As at March 27, 1998, the balance of the restructuring provision included in accounts payable and accrued liabilities amounted to $1.1 (1997–$7.7). The restructuring program related to this provision is expected to be completed during Fiscal 1999.

## 16. INVESTMENT AND INTEREST INCOME

Interest income earned on cash and short-term investments in Fiscal 1998 was $5.7 (1997–$6.0; 1996–$10.0). On September 27, 1996, the Company sold its equity interest in Esprit Telecom (Jersey) Ltd. (Esprit), a non-strategic holding which was carried at a nominal cost. The gain on the sale of shares in Esprit was $3.6.

## 17. INCOME TAXES

Details of income tax expense (recovery) were as follows:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Current | | | |
| Canadian | **$ 28.8** | $ 14.9 | $ 9.3 |
| Foreign | **1.1** | 7.0 | 5.6 |
| Deferred | | | |
| Foreign | **0.6** | (1.3) | 0.1 |
| | **$ 30.5** | $ 20.6 | $ 15.0 |

Deferred taxes on income generally result from timing differences primarily in the recognition of depreciation and amortization and R&D expenditures for tax and financial reporting purposes.

The income tax expense reported differs from the amount computed by applying the Canadian rates to the income before income taxes. The reasons for these differences and their tax effects were as follows:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Expected tax rate | **40%** | 40% | 40% |
| Expected tax expense | **$ 49.0** | $ 23.4 | $ 26.4 |
| Foreign tax rate differences | **(1.1)** | (2.2) | (0.8) |
| Tax effect of losses not recognized | **0.7** | 8.7 | 2.5 |
| Tax effect of realizing benefit of prior years' loss carryforwards and timing differences | **(18.0)** | (13.9) | (15.7) |
| Corporate minimum taxes | **0.7** | 3.2 | 2.4 |
| Other | **(0.8)** | 1.4 | 0.2 |
| Income tax expense | **$ 30.5** | $ 20.6 | $ 15.0 |

Unremitted earnings of subsidiaries subject to withholding taxes will be indefinitely reinvested with no provision necessary for potential withholding taxes on repatriation of subsidiary earnings. The income before income taxes attributable to all foreign operations was $7.4 (1997–$6.1; 1996–$15.7).

As at March 27, 1998, the Company had tax loss carryforwards of approximately $100.0 for which no accounting benefit was recognized and which are available to reduce future years' income for tax purposes. These tax loss carryforwards expire as follows: 2002–$2.8; 2003–$16.5; 2004–$7.1; 2005 to 2013–$73.6. The tax loss carryforwards relate to operations in the United States, Germany and Hong Kong. As at March 27, 1998, the Company had Canadian ITC carryforwards of approximately $45.5, which are available to reduce future years' income taxes. These ITCs expire during the years from 2000 to 2008. *(See also Note 14.)* In addition, the Company had timing differences of approximately $30.0 for which no accounting benefit was recognized.

## [illegible] INCOME PER COMMON SHARE

The net income per common share figures were calculated based on net income after the deduction of preferred share dividends and using the weighted monthly average number of shares outstanding during the respective fiscal years (107,775,404 shares in 1998; 107,274,463 shares in 1997; and 105,920,369 shares in 1996). The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all outstanding options had been exercised at the later of the beginning of the fiscal year and the option issue date, and includes an allowance for imputed earnings net of tax derived from the investment of funds which would have been received.

## [illegible] ACQUISITIONS

(A) On April 16, 1998 and subsequent to Fiscal 1998's year end, the Company announced that it entered into an agreement to acquire certain assets of the Customer Premises Equipment (CPE) Business Unit of Centigram Communications Corporation for cash consideration of U.S.$22.0. The Company will also purchase receivables and inventories related to that business for approximately U.S.$4.8 in cash. Centigram's CPE Business Unit, based in San Jose, California, provides productivity-enhancing, enterprise-wide messaging solutions to organizations around the world through a broad network of distributors and agents. The acquisition is expected to close on or about May 8, 1998. The acquisition will be accounted for by the purchase accounting method, in which the results of operations are included in the Company's accounts from the date of acquisition.

(B) On February 12, 1998, the Company and certain of its wholly owned subsidiaries acquired 100 percent of the capital stock of four affiliated entities which, together with their respective subsidiaries, comprise Plessey for a total cash consideration of $323.6 (U.S. $225.0). Plessey, headquartered in Swindon, U.K., is an international semiconductor manufacturer for communications and media applications. The acquired company will operate as Mitel Semiconductor Limited in the U.K. and as Mitel Semiconductor Americas Inc. in the U.S. The acquisition was accounted for by the purchase accounting method. The purchase transaction is summarized as follows:

*Net assets acquired at approximate fair value:*

| | |
|---|---|
| Current assets *(including cash of $1.4)* | $ 134.4 |
| Capital assets | 354.3 |
| Other assets | 10.5 |
| Total assets | 499.2 |
| Current liabilities | 143.4 |
| Capital leases | 18.3 |
| Deferred income taxes | 13.9 |
| Total liabilities | 175.6 |
| Total net assets | $ 323.6 |
| Cash consideration | $ 323.6 |

The allocation to net assets includes incurred liabilities of $10.6 in respect of acquisition costs, and $45.2 in respect of costs to integrate the operations of the acquired company with the Semiconductor division. The integration provision includes severance costs of $21.9 and costs of $23.3 primarily related to eliminating other redundancies. The acquisition and integration liabilities were outstanding as at March 27, 1998.

Unaudited Pro Forma financial information for the acquisition as if the business had been acquired at the beginning of each respective fiscal period is presented as follows:

| *(unaudited)* | *1998* | *1997* |
|---|---|---|
| | *Pro Forma combined* | *Pro Forma combined* |
| Revenue | **$ 1,227.3** | $ 1,152.9 |
| Net income | **$ 41.2** | $ 34.0 |
| Net income attributable to common shareholders after preferred share dividends | **$ 38.0** | $ 30.8 |
| Net income per common share *(Note 18)*: | | |
| Basic | **$ 0.35** | $ 0.29 |
| Fully diluted | **$ 0.35** | $ 0.28 |

The unaudited Pro Forma information does not include the operating savings or synergies anticipated as a result of the combined operations.

(C) On August 8, 1997, the Company acquired certain assets and the remote access business of Gandalf Technologies Inc. (Gandalf) for cash consideration of $21.6. The purchase agreement did not include Gandalf's service business. Gandalf's remote access products and technology facilitate high volume data and voice communications between the corporate office, local branches, teleworkers, and agents in the field. Gandalf's operations are based principally in Canada, the United States, and the United Kingdom. In addition to the cash consideration, the Company incurred expenses of $0.5 in respect of acquisition costs and $0.6 in respect of costs to integrate the operations of the acquired company. As at March 27, 1998, the integration program was substantially completed.

This acquisition was accounted for by the purchase accounting method. The purchase price allocation was based on fair values assigned to net assets as determined by an independent valuation firm using standard valuation techniques. An amount of $14.9 was allocated to identifiable intangible assets which include completed and in-process research and development, trademarks, and the tradename. The identifiable intangible assets will be amortized over ten years. The purchase transaction is summarized as follows:

*Net assets acquired, at approximate fair value:*

| | |
|---|---|
| Current assets | $ 7.1 |
| Capital assets | 15.6 |
| Total assets | 22.7 |
| Current liabilities | 1.1 |
| Total net assets | $ 21.6 |
| Cash consideration | $ 21.6 |

Pro Forma financial information for the acquisition as if the business had been acquired at the beginning of Fiscal 1998 is not presented due to the insignificant impact on the Company's results of operations.

(D) On January 31, 1997, the Company acquired the business and assets of Global Village Communication (U.K.) Limited, an ISDN solution provider based in the United Kingdom, for cash consideration of $5.1. This acquisition was accounted for by the purchase accounting method. The difference between the purchase price and the fair value of the acquired net assets amounted to $3.3, all of which was recorded as goodwill to be amortized on a straight-line basis over five years. The purchase transaction is summarized as follows:

*Net assets acquired, at approximate fair value:*

| | |
|---|---|
| Current assets | $ 3.1 |
| Capital assets | 1.0 |
| Goodwill | 3.3 |
| Total assets | 7.4 |
| Current liabilities | 2.3 |
| Total net assets | $ 5.1 |
| Cash consideration | $ 5.1 |

(E) On March 29, 1996, the Company acquired ABB Hafo AB (subsequently renamed Mitel Semiconductor AB), a designer, manufacturer and marketer of custom and application specific integrated circuits and semiconductor components with operations based in Sweden and the United States. Mitel Semiconductor AB was acquired for cash consideration of $44.0, comprised of $24.0 for 100 percent of the outstanding common shares and $20.0 for the repayment of all bank loans in the acquired company. In addition to the cash consideration, the Company incurred expenses of $1.7 in respect of acquisition costs and $2.0 in respect of costs to integrate the operations of the acquired company with the Semiconductor division. As at March 27, 1998, the integration program was completed. This acquisition was accounted for by the purchase accounting method. The purchase transaction is summarized as follows:

*Net assets acquired, at approximate fair value:*

| | |
|---|---|
| Current assets (including cash of $0.5) | $ 28.0 |
| Capital assets | 48.2 |
| Total assets | 76.2 |
| Current liabilities | 13.9 |
| Pension liability | 12.1 |
| Deferred income taxes | 6.2 |
| Total liabilities | 32.2 |
| Total net assets | $ 44.0 |
| Cash consideration | $ 44.0 |

During the year ended March 27, 1998, the Company sold to jointly controlled and significantly influenced enterprises products and services valued at approximately $2.5 (1997–$8.1; 1996–$7.9).

Included in accounts receivable as at March 27, 1998 were amounts due from jointly controlled and significantly influenced enterprises of $0.4 (1997–$0.4; 1996–$1.5).

## 21. INFORMATION ON GEOGRAPHIC SEGMENTS

The Company operates primarily as a vertically integrated manufacturer of communications products which is its principal line of business. Included in total revenue for Canada were export sales amounting to $275.6 in Fiscal 1998 (1997–$244.9; 1996 –$197.7). The point of origin (the location of the selling organization) of revenue and the location of the assets determine the geographic areas. The following tables present segmented geographic information:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Revenue: | | | |
| Canada | | | |
| External customers | **$ 141.0** | $ 113.4 | $ 98.6 |
| Transfers between geographic areas | **188.3** | 181.5 | 145.3 |
| | **329.3** | 294.9 | 243.9 |
| United States | | | |
| External customers | **405.7** | 312.9 | 271.5 |
| Transfers between geographic areas | **20.1** | 19.4 | 14.1 |
| | **425.8** | 332.3 | 285.6 |
| Europe | | | |
| External customers | **329.0** | 248.0 | 183.3 |
| Transfers between geographic areas | **58.9** | 32.4 | 19.2 |
| | **387.9** | 280.4 | 202.5 |
| Other | | | |
| External customers | **12.8** | 21.2 | 23.0 |
| Eliminations of transfers between geographic areas | **(267.3)** | (233.3) | (178.6) |
| Total revenue | **$ 888.5** | $ 695.5 | $ 576.4 |

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Operating income: | | | |
| Canada | **$ 110.6** | $ 53.7 | $ 58.8 |
| United States | **57.9** | 35.7 | 37.8 |
| Europe | **57.2** | 40.9 | 35.0 |
| Other | **2.3** | 15.7 | 3.2 |
| Eliminations | **(8.6)** | (10.2) | (5.0) |
| Segment operating income | **219.4** | 135.8 | 129.8 |
| Corporate expenses | **95.0** | 84.4 | 72.1 |
| Operating income | **124.4** | 51.4 | 57.7 |
| Investment and interest income, net of interest expense | **(2.0)** | 7.2 | 8.3 |
| Income tax expense | **(30.5)** | (20.6) | (15.0) |
| Net income | **$ 91.9** | $ 38.0 | $ 51.0 |
| Capital asset additions: | | | |
| Canada | **$ 28.5** | $ 57.1 | $ 26.9 |
| United States | **3.2** | 3.5 | 2.3 |
| Europe | **26.6** | 13.2 | 4.4 |
| Other | **0.9** | 0.1 | 0.9 |
| Capital asset additions | **$ 59.2** | $ 73.9 | $ 34.5 |
| Amortization expense: | | | |
| Canada | **$ 21.7** | $ 17.9 | $ 13.4 |
| United States | **3.2** | 2.4 | 1.6 |
| Europe | **25.7** | 12.9 | 4.1 |
| Other | **0.2** | 0.3 | 0.1 |
| Amortization expense | **$ 50.8** | $ 33.5 | $ 19.2 |
| Identifiable assets: | | | |
| Canada | **$ 242.0** | $ 187.4 | $ 136.5 |
| United States | **153.9** | 96.7 | 82.8 |
| Europe | **739.2** | 194.9 | 198.1 |
| Other | **2.3** | 6.8 | 11.5 |
| Identifiable assets | **1,137.4** | 485.8 | 428.9 |
| Corporate assets | **100.3** | 99.0 | 88.2 |
| Total assets | **$ 1,237.7** | $ 584.8 | $ 517.1 |

In line with industry practice, corporate expenses include research and development, scientific research agreement revenue, and general administration expenses. Interest and income taxes are excluded from the calculation of segment operating income.

Transfers between areas are made at prices based on the total cost of the product to the selling location.

## UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which, in the case of the Company, conform in all material respects with those in the United States (U.S. GAAP) and with the requirements of the Securities and Exchange Commission (SEC), except as follows:

(A) Under Canadian GAAP, unrealized and realized gains and losses on foreign currency transactions identified as hedges may be deferred as long as there is reasonable assurance that the hedge will be effective. Under U.S. GAAP, deferral is allowed only on foreign currency transactions intended to hedge identifiable firm foreign currency commitments.

(B) Under Canadian GAAP, investments in joint ventures are recognized in the financial statements of the venturer by applying the proportionate consolidation method of accounting. Under U.S. GAAP, equity accounting is applied to investments in joint ventures when preparing the consolidated financial statements of the venturer.

(C) Under Canadian GAAP, stock issue costs are shown as an adjustment to retained earnings. The carrying amount of capital stock is shown net of issue costs under U.S. GAAP. incr equity

(D) Redeemable preferred shares are excluded from shareholders' equity under requirements of the SEC.

(E) Reductions in stated capital and deficit are not recorded under U.S. GAAP. The Company had previously undertaken stated capital and deficit reductions in fiscal years 1985, 1986, 1987 and 1992.

(F) Under Canadian GAAP, for purposes of the statements of cash flows, cash position includes all short-term investments. Under U.S. GAAP, cash position includes highly liquid investments with original maturities of less than three months. In addition, under U.S. GAAP, non-cash items such as assets acquired under capital lease are excluded from the statements of cash flows. Under Canadian GAAP, the gross amount of non-cash items is included in the respective operating, investing, or financing activities as applicable.

(G) The Company implemented SFAS 109, Accounting for Income Taxes, in Fiscal 1994 for purposes of reconciliation to U.S. GAAP. As at March 27, 1998, the Company's deferred tax asset, primarily related to the benefit of realizing investment tax credit and loss carryforwards and timing differences, net of a valuation allowance of $85.5 (1997–$123.1), was $42.7 (1997 –$10.2), and deferred tax liabilities, primarily related to buildings and equipment, were $27.1 (1997 - $9.9). The application of this method also gives rise to differences in the allocation of consideration with respect to business combinations which may result in the recognition of deferred tax balances. Subsequent realization of any unrecognized tax benefits will be applied to reduce any remaining goodwill or intangibles of the related acquisitions, before being reported in net income for U.S. GAAP purposes.

(H) Management has examined the rules applicable to SFAS 119 regarding the disclosure of derivative financial instruments and the fair value of financial instruments and has provided the required disclosure in Notes 7, 9, 22, 23, and 24.

(I) The Company implemented SFAS 128 in Fiscal 1998, regarding earnings per share for purposes of reconciliation to U.S. GAAP. Under U.S. GAAP the fully diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents. The comparative figures were restated to conform to the adopted accounting method and presentation.

(J) Purchased R&D under Canadian GAAP is capitalized and amortized over the remaining useful life of the technology to which it relates. Under U.S. GAAP, the purchased in-process R&D is expensed at the time of acquisition. The Company has not established the technical feasibility of the in-process R&D and it has no alternative future use.

(K) As allowed under SFAS 123, accounting for stock based compensation, management has determined that it will continue to apply Accounting Principles Board Opinion No. 25 (APB 25), in accounting for its employee stock options for purposes of reconciliation to U.S. GAAP because the alternative fair value accounting provided for under SFAS 123 requires the use of option valuation models that were not developed for use in valuing

employee stock options. In accordance with Company policy, the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. Accordingly under the rules of APB 25, no related compensation expense was recorded in the Company's results of operations for U.S. GAAP purposes.

(L) Under Canadian GAAP, exchange gains or losses related to translation of foreign currency denominated long-term monetary items are deferred and amortized over the remaining life of the items. Under U.S. GAAP, deferral is not allowed and such gains or losses are included in the determination of net income.

(M) Under Canadian GAAP, certain costs relating to the acquirer may be recognized in the purchase price allocation when accounting for business combinations. These costs, subject to certain conditions, qualify where they are a direct substitute for costs that would otherwise be incurred with respect to the acquired business. Under U.S. GAAP, only costs relating directly to the acquired business may be considered in the purchase price allocation.

The following table reconciles the net income as reported on the consolidated statements of income to the net income that would have been reported had the financial statements been prepared in accordance with U.S. GAAP and the requirements of the SEC. The proportionate consolidation method for joint ventures does not affect the measurement of income or shareholders' equity and therefore is not addressed in the following table:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net income in accordance with Canadian GAAP | **$ 91.9** | $ 38.0 | $ 51.0 |
| Write-off of acquired in-process R&D | **(2.7)** | – | – |
| Amortization of acquired in-process R&D | **0.2** | – | – |
| Effect of deferral accounting related to foreign exchange contracts | **0.4** | (7.2) | 5.9 |
| Translation of foreign currency denominated debt | **6.4** | – | – |
| Adjustment to deferred income taxes | **6.1** | 10.2 | – |
| Acquirer's redundancy provisions | **(12.4)** | – | – |
| U.S. GAAP and SEC requirements: | | | |
| Net income for the period | **89.9** | 41.0 | 56.9 |
| Less: dividends on cumulative preferred shares | **3.2** | 3.2 | 3.3 |
| Adjusted net income | **$ 86.7** | $ 37.8 | $ 53.6 |
| Net income per common share: | | | |
| Basic | **$ 0.80** | $ 0.35 | $ 0.51 |
| Fully diluted | **$ 0.80** | $ 0.35 | $ 0.50 |
| Weighted average shares for basic EPS (millions) | **107.8** | 107.3 | 105.9 |
| Weighted average shares on conversion of stock options (millions) | **1.1** | 1.2 | 1.2 |
| Adjusted weighted average shares and share equivalents (millions) | **108.9** | 108.5 | 107.1 |

The following options were excluded in the computation of diluted earnings per share because the options' exercise price exceeded the average market price of the common shares and, therefore, the effect would be antidilutive: options outstanding for the year ended March 27, 1998 to purchase 3,167,250 (1997–647,000; 1996–395,500) shares of common stock at an average exercise price of $17.69 (1997–$9.31; 1996–$7.87) per share.

Cash flow information presented in conformity in all material respects with U.S. GAAP:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Cash provided by (used in) | | | |
| Operating activities – Canadian GAAP | **$ 75.4** | $ 66.1 | $ 70.4 |
| Deferred income taxes | **6.1** | 10.2 | – |
| Change in deferred tax asset | **(6.1)** | (10.2) | – |
| Operating activities – U.S. GAAP | **75.4** | 66.1 | 70.4 |
| Investing activities – Canadian GAAP | **(396.0)** | (68.6) | (76.8) |
| Change in short-term investments | **53.3** | (2.9) | (6.3) |
| Additions to capital assets under capital lease | **24.6** | 31.3 | 16.3 |
| Investing activities – U.S. GAAP | **(318.1)** | (40.2) | (66.8) |
| Financing activities – Canadian GAAP | **327.5** | 6.9 | 3.9 |
| Increase in capital leases | **(24.6)** | (31.3) | (16.3) |
| Financing activities – U.S. GAAP | **302.9** | (24.4) | (12.4) |
| Increase (decrease) in cash | **60.2** | 1.5 | (8.8) |
| Effect of currency translation on cash flows | **1.5** | 1.6 | (1.8) |
| Cash position, beginning of period | **55.5** | 52.4 | 63.0 |
| Cash position, end of period | **$ 117.2** | $ 55.5 | $ 52.4 |

Balance sheet items in conformity with U.S. GAAP and SEC requirements:

| | 1998 | 1997 |
|---|---|---|
| Cash | $ 117.2 | $ 55.5 |
| Short-term investments | $ 34.5 | $ 87.8 |
| Deferred tax assets | $ 11.8 | $ 6.1 |
| Fixed assets | $ 525.1 | $ 183.7 |
| Other assets | $ 69.6 | $ 19.4 |
| Accounts payable and accrued liabilities | $ 284.5 | $ 128.3 |
| Redeemable preferred shares | $ 34.4 | $ 34.4 |
| Common shares | $ 603.2 | $ 599.2 |
| Contributed surplus | $ 2.5 | $ 2.5 |
| Deficit | $ (206.2) | $ (292.9) |

151.7 38.7 (27.1) 57.2 270.7 Dec 11 code 44 = 34.4 code 112 = 5.0 code 3 = 4.2 -399.5

In addition, the Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 130 Comprehensive Income (SFAS 130) and No. 131 Disclosures about Segments of an Enterprise and Related Information (SFAS 131). SFAS 130 and SFAS 131 will be effective for the Company's March 26, 1999 year end. The Company has not determined the impact, if any, of these pronouncements on its consolidated financial statements.

Pro Forma financial information required by SFAS 123 has been determined as if the Company had accounted for its employee stock options using the Black-Scholes fair value option pricing model with the following weighted-average assumptions for fiscal years 1998, 1997, and 1996:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Risk-free interest rate | **5.30%** | 5.45% | 7.02% |
| Dividend yield | **nil** | nil | nil |
| Volatility factor of the expected market price of the Company's common stock | **0.483** | 0.565 | 0.593 |
| Weighted-average expected life of the options | **6 years** | 6 years | 6 years |
| U.S. GAAP Pro Forma net income attributable to common shareholders after preferred dividends | **$ 84.0** | $ 36.6 | $ 53.2 |
| U.S. GAAP Pro Forma net income per common share: | | | |
| Basic | **$ 0.78** | $ 0.34 | $ 0.49 |
| Fully diluted | **$ 0.77** | $ 0.34 | $ 0.49 |

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of Pro Forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis. *(See also Note 12.)*

[illegible]

The Company maintains several defined contribution and three defined benefit pension plans for its employees. Pension expense was $6.4 in Fiscal 1998 (1997–$4.8; 1996–$3.3).

[illegible]

Both the Company and the employees contribute to these plans based on the employees' earnings.

*B) Defined Benefit Pension Plans*

The Company's policy is to fund defined benefit pension plans in accordance with independent actuarial valuations and as permitted by pension regulatory authorities.

(i) The first defined benefit plan is contributory and covers substantially all employees of Mitel Telecom Limited, a wholly owned subsidiary of the Company, by providing pension benefits based on length of service and final pensionable earnings. Employee contributions are based on pensionable earnings. Actuarial reports in connection with this defined benefit plan, prepared in April, 1995 and updated to March 28, 1997, were based on projections of employees' compensation levels to the time of retirement. These actuarial reports indicate that the actuarial present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, were as follows:

| | 1998 | 1997 |
|---|---|---|
| Pension fund assets | **$ 60.9** | $ 53.5 |
| Accrued pension benefits | **$ 54.2** | $ 48.2 |

The assumptions used to develop the actuarial present value of the accrued pension benefits for Fiscal 1998 and Fiscal 1997 were as follows:

| | |
|---|---|
| Discount rate | 8.5% |
| Compensation increase rate | 6.5% |
| Investment return assumption | 8.5% |

For purposes of an actuarial valuation, pension fund assets were valued using the discounted income method. Under this approach, the value of the assets is obtained by estimating the receipts which will arise in the future from the plan's investments and then discounting the amounts to the valuation date, at the valuation rate of return on assets.

(ii) The second defined benefit plan is contributory and covers substantially all employees of Mitel Semiconductor Limited, a wholly owned subsidiary of the Company acquired on February 12, 1998 *(see also Note 19)*. This plan is currently being administered by The General Electric Company, p.l.c., from whom the Company acquired Mitel Semiconductor Limited. The Company will establish a new pension plan and transfer the employees to this plan once regulatory approvals are completed.

(iii) The third defined benefit plan covers all employees over the age of twenty-eight in Sweden and provides pension benefits based on length of service and final pensionable earnings. There are no pension fund assets under the plan. The associated pension liability is calculated each year by the Pension Registration Institute and is insured in its entirety by Forsakringsbolaget Pensionsagaranti. The pension liability of $12.2 (67.9 SEK) (1997–$11.3 (62.6 SEK)) was actuarially determined based on the present value of the accrued future pension benefits and in accordance with applicable laws and regulations in Sweden.

## 24. FOREIGN EXCHANGE CONTRACTS

At March 27, 1998, foreign currency contracts to exchange $235.5 in foreign currency (977.0 Italian Lira, 646.7 Japanese Yen, 96.5 Pounds Sterling, 32.4 French Francs, 25.0 Swedish Krona, 5.2 U.S. Dollars, 2.7 Deutsche Marks and 2.3 Singapore Dollars) had an unrealized loss of $9.6. All of the contracts mature before July 31, 1999. The unrealized loss represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows. The unrealized loss reflects the estimated amount that the Company would have been required to pay if forced to settle all outstanding contracts on March 27, 1998.

Mitel is exposed to credit risk in the event of non-performance, but does not anticipate non-performance, by any of the counter parties. Management believes that there is no substantial concentration of credit risk resulting from the foreign currency forward contracts.

## 25. CASH FLOW INFORMATION

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| *Net change in non-cash working capital balances related to operating activities:* | | | |
| Accounts receivable | **$ (65.6)** | $ (9.8) | $ (7.0) |
| Inventories | **(6.3)** | (11.6) | 9.0 |
| Accounts payable and accrued liabilities | **28.9** | 10.3 | 1.4 |
| Deferred revenue | **5.1** | 2.9 | (0.7) |
| Other | **(12.3)** | 1.6 | (2.8) |
| | **$ (50.2)** | $ (6.6) | $ (0.1) |

## 26. UNUSED BANK LINES OF CREDIT

Upon the purchase of Plessey, a new line of credit was granted for $106.0 (U.S.$75.0), of which up to $28.3 (U.S.$20.0) was available for letters of credit. At March 27, 1998, $8.7 (U.S.$6.2) in letters of credit were outstanding against this credit facility, thus the Company had unused and available demand bank lines of credit amounting to approximately $97.3 (U.S.$68.8) (1997 –$32.7) at a rate of interest based on the LIBOR (5.6875%), plus 2 percent.

## 27. COMPARATIVE FIGURES

Certain of the 1997 and 1996 comparative figures have been reclassified so as to conform to the presentation adopted in 1998.

## Selected financial data

*(in millions of Canadian dollars, except per share amounts)*

The following table is derived from the consolidated financial statements included elsewhere herein, which have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). These principles also conform, in all material respects, with accounting principles generally accepted in the United States (U.S. GAAP), and the requirements of the SEC, except as more fully described in Note 22 to the consolidated financial statements.

| *(at the end of fiscal year for balance sheet data)* | 1998 | 1997 | 1996 | 1995 | *Fiscal year ended* 1994 |
|---|---|---|---|---|---|
| CANADIAN GAAP | | | | | |
| Income Statement Data: | | | | | |
| Revenue | **$ 888.5** | $ 695.5 | $ 576.4 | $ 589.4 | $ 496.4 |
| Gross margin percentage | **51%** | 50% | 49% | 45% | 44% |
| Gross research and development expense | **92.4** | 61.5 | 46.5 | 44.9 | 37.1 |
| Operating income | **124.4** | 51.4 | 57.7 | 28.3 | 22.0 |
| Net income | **91.9** | 38.0 | 51.0 | 31.8 | 20.7 |
| Net income per common share | **0.82** | 0.32 | 0.45 | 0.27 | 0.16 |
| Weighted average common shares outstanding | **107.8** | 107.3 | 105.9 | 105.6 | 105.1 |
| Balance Sheet Data: | | | | | |
| Working capital | **$ 245.9** | $ 206.3 | $ 210.3 | $ 208.4 | $ 174.2 |
| Total assets | **1,237.7** | 584.8 | 517.1 | 440.6 | 376.4 |
| Current portion of long-term debt | **40.3** | 14.8 | 11.2 | 9.0 | 3.9 |
| Long-term debt | **379.6** | 43.0 | 39.6 | 34.5 | 27.8 |
| Pension liability | **12.2** | 11.3 | 12.1 | – | – |
| Shareholders' equity | | | | | |
| (including redeemable preferred shares) | **435.5** | 339.5 | 302.8 | 263.0 | 231.7 |
| U.S. GAAP AND SEC REQUIREMENTS | | | | | |
| Income Statement Data: | | | | | |
| Net income | **$ 89.9** | $ 41.0 | $ 56.9 | $ 59.0 | $ 18.4 |
| Net income per common share | **0.80** | 0.35 | 0.51 | 0.53 | 0.14 |
| Weighted average common shares outstanding | **107.8** | 107.3 | 105.9 | 105.6 | 105.1 |
| Balance Sheet Data: | | | | | |
| Working capital | **$ 263.9** | $ 208.4 | $ 213.5 | $ 205.8 | $ 172.4 |
| Total assets | **1,235.7** | 595.0 | 517.1 | 440.6 | 376.4 |
| Current portion of long-term debt | **40.3** | 14.8 | 11.2 | 9.0 | 3.9 |
| Long-term debt | **379.6** | 43.0 | 39.6 | 34.5 | 27.8 |
| Long-term obligation under research and development contract | **–** | – | – | – | 28.1 |
| Pension liability | **12.2** | 11.3 | 12.1 | – | – |
| Redeemable preferred shares | **34.4** | 34.4 | 34.4 | 35.8 | 37.8 |
| Shareholders' equity | | | | | |
| Common shares | **603.2** | 599.2 | 596.5 | 595.6 | 595.2 |
| Contributed surplus | **2.5** | 2.5 | 2.5 | 2.6 | 2.7 |
| Deficit | **(206.2)** | (292.9) | (330.7) | (384.3) | (439.6) |
| Translation | **5.8** | 2.5 | 3.3 | 10.6 | 5.7 |

## Supplementary financial information

*(in millions of Canadian dollars, except per share amounts; unaudited)*

### SELECTED QUARTERLY FINANCIAL DATA *(in accordance with Canadian generally accepted accounting principles)*

| FISCAL 1998 | First quarter | Second quarter | Third quarter | Fourth quarter | Full year |
|---|---|---|---|---|---|
| Revenue | $ 182.0 | $ 205.0 | $ 215.5 | $ 286.0 | $ 888.5 |
| Gross margin | $ 90.0 | $ 102.8 | $ 110.6 | $ 147.8 | $ 451.2 |
| Gross margin percentage | 49% | 50% | 51% | 52% | 51% |
| Net income | $ 18.2 | $ 23.3 | $ 25.6 | $ 24.8 | $ 91.9 |
| Net income per common share | $ 0.16 | $ 0.21 | $ 0.23 | $ 0.22 | $ 0.82 |

| FISCAL 1997 | First quarter | Second quarter | Third quarter | Fourth quarter | Full year |
|---|---|---|---|---|---|
| Revenue | $ 155.9 | $ 167.5 | $ 173.1 | $ 199.0 | $ 695.5 |
| Gross margin | $ 79.4 | $ 85.0 | $ 88.7 | $ 98.0 | $ 351.1 |
| Gross margin percentage | 51% | 51% | 51% | 49% | 50% |
| Net income (loss) | $ 10.7 | $ 16.5 | $ 11.5 | $ (0.7) | $ 38.0 |
| Net income (loss) per common share | $ 0.09 | $ 0.15 | $ 0.10 | $ (0.01) | $ 0.32 |

### EXCHANGE RATES OF THE CANADIAN DOLLAR

The high and low exchange rates (i.e. the highest and lowest rates at which Canadian dollars were sold), the average exchange rate (i.e. the average of the exchange rates on the last day of each month during the period) and the period end exchange rates of the Canadian dollar in exchange for U.S. currency for each of the five years ended December 31, 1997 and for the period January 1, 1998 through May 7, 1998, calculated based on the noon buying rates as reported by the Federal Reserve Bank of New York, were as follows:

| U.S. Dollars | January 1 to May 7, 1998 | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|---|
| High | **0.7105** | 0.7487 | 0.7513 | 0.7527 | 0.7632 | 0.8046 |
| Low | **0.6832** | 0.6945 | 0.7235 | 0.7023 | 0.7103 | 0.7439 |
| Average | **0.6976** | 0.7223 | 0.7332 | 0.7286 | 0.7318 | 0.7751 |
| Period End | **0.6944** | 0.6999 | 0.7301 | 0.7323 | 0.7128 | 0.7544 |

## Common share information

### PRINCIPAL MARKETS

The Toronto Stock Exchange and the New York Stock Exchange are the principal markets on which the Company's shares are traded. The shares are also listed on the Montreal and London Stock Exchanges. The Company's shares were first listed on the Toronto Stock Exchange on August 13, 1979 and on the New York Stock Exchange on May 18, 1981. The stock symbol of the Company's shares is MLT. The following table sets forth the high and low sales prices for the common shares for each quarter of the last two fiscal years.

| | | *1998* | | *1997* |
|---|---|---|---|---|
| TORONTO STOCK EXCHANGE *(Canadian Dollars)* | *High* | *Low* | *High* | *Low* |
| 1st Quarter | $ 8.2000 | $ 6.6000 | $ 10.0900 | $ 8.3000 |
| 2nd Quarter | $ 10.9500 | $ 7.1000 | $ 9.6000 | $ 7.7500 |
| 3rd Quarter | $ 13.0000 | $ 10.0000 | $ 9.6500 | $ 8.5000 |
| 4th Quarter | $ 19.2000 | $ 10.5500 | $ 10.8500 | $ 6.7500 |

| | | *1998* | | *1997* |
|---|---|---|---|---|
| NEW YORK STOCK EXCHANGE *(U.S. Dollars)* | *High* | *Low* | *High* | *Low* |
| 1st Quarter | $ 6.0000 | $ 4.7500 | $ 7.3750 | $ 6.1250 |
| 2nd Quarter | $ 7.9375 | $ 5.1875 | $ 6.8750 | $ 5.7500 |
| 3rd Quarter | $ 9.3125 | $ 7.1250 | $ 7.2500 | $ 6.2500 |
| 4th Quarter | $ 13.5000 | $ 7.3125 | $ 8.1250 | $ 4.6250 |

### SHAREHOLDERS

There were 5,101 common shareholders of record as at May 7, 1998.

### DIVIDEND POLICY

The Company has not declared or paid any dividends on its common shares and the Board of Directors anticipates that, with the exception of preferred share dividend requirements, all available funds will be applied in the foreseeable future to finance growth, and to improve the Company's competitive position and profitability.

Pursuant to the terms of the $2.00 Cumulative Redeemable Convertible Preferred Shares, 1983 R&D Series (Preferred Shares – R&D Series), the Company will not be permitted to pay any dividends on common shares unless all dividends accrued on the preferred shares have been declared and paid or set apart for payment.

Pursuant to the terms of the credit agreement described in Note 9 to the consolidated financial statements, the Company is required to maintain a minimum net worth, thereby limiting the amount of dividends that could be paid out. The preferred shares dividend does not violate this convenant. Since the Company does not anticipate any dividends on its common shares, the covenant is not expected to have an impact on the dividend policy.

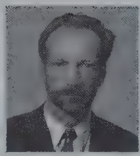
Dividends paid by the Company to common shareholders not resident in Canada would generally be subject to Canadian withholding tax at the rate of 25 percent or such lower rate as may be provided under applicable tax treaties. Under the Canada – United States tax treaty, the rate of withholding tax applicable to such dividends paid to residents of the United States would generally be 15 percent.

## Corporate directory

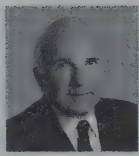

Dr. Henry Simon


Anthony L. Craig


Peter van Cuylenburg


Hubert T. Lacroix


Dr. John B. Millard


Donald W. Paterson


Jonathan I. Wener

### BOARD OF DIRECTORS

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CHAIRMAN, SCHRODER VENTURES LIFE SCIENCES ADVISERS

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Dr. John B. Millard

*Compensation*

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### MEMBERS OF EXECUTIVE MANAGEMENT COMMITTEE

Dr. John B. Millard

Jean-Jacques Carrier

François Cordeau

Kirk K. Mandy

Donald G. McIntyre

### CORPORATE GOVERNANCE

Mitel believes that it is in substantial compliance with the guidelines on improved corporate governance issued by the Toronto and Montreal stock exchanges in 1995.

Shareholders will find a detailed description of corporate governance in the Company's Management Proxy Circular.

† *Officers of the Corporation*

# Investor information

The Annual and Special Meeting of Shareholders will be held at 10:30 a.m., Thursday, July 23rd, 1998 at the Chateau Laurier Hotel, 1 Rideau Street, Ottawa, Ontario.

Shareholders and other individuals requesting information about Mitel or wishing to receive, free of charge, copies of the Annual and Quarterly Reports, including the Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission and Canadian Regulatory Authorities, should call or write to:

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## RAPPORT ANNUEL EN FRANÇAIS

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## TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company
Toronto, Ontario

The Bank of Nova Scotia Trust Company of New York
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## LEGAL COUNSEL

McCarthy Tétrault
Montreal, Quebec
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Rubin Baum Levin Constant & Friedman
New York, New York

## STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Montreal Stock Exchange
New York Stock Exchange
The Stock Exchange, London

Common Stock Symbol – MLT
Preferred Stock Symbol – MLT.PR.A
(TSE and ME only)

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+ *manufacturing location*

Web site: http://www.mitel.com

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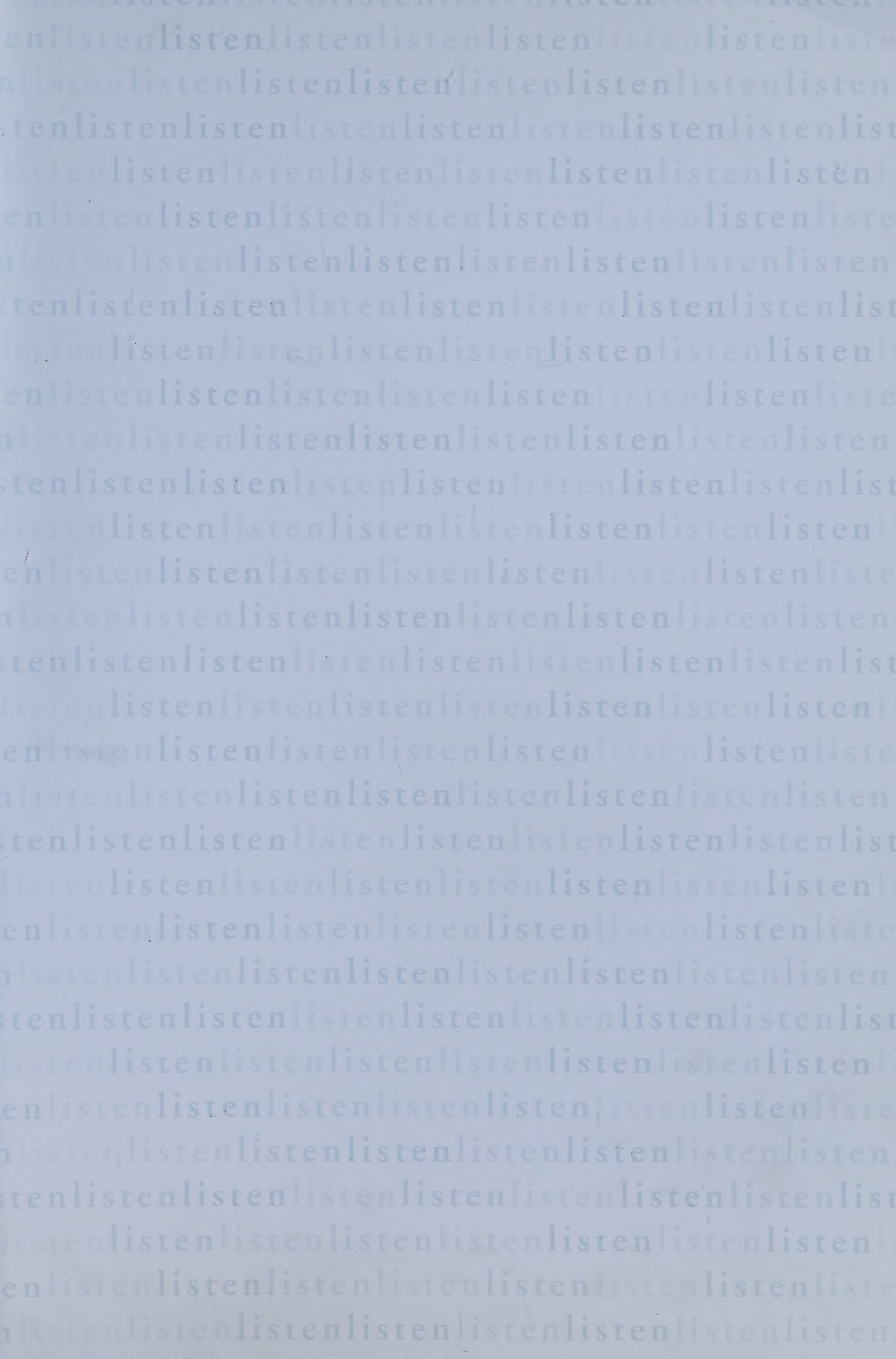
MPN 9199-958-059-NA
Printed in Canada

This publication has been printed on environmentally friendly paper. The cover and the front section are acid free. The financial section is 50% recycled including 20% post-consumer waste.

Design: www.aartvark.on.ca



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